Austria Sch22	Indonesia Rp3100	Portugal Esc100
Bahrain Din0.650	Israel NS3.50	S.Arabia Rls6.00
Belgium BFr48	Italy L1400	Singapore ...... S$4.10
Canada ...... C$1.00	Japan Y600	Spain Pta125
Cyprus ...... C£0.75	Jordan Fils500	Sri Lanka Rup30
Denmark DKr9.00	Kuwait Fils.500	Sweden SKr8.00
Egypt ...... E£2.25	Lebanon $L100.00	Switzerland. SFr2.20
Finland Fmk7.00	Luxembourg LFr48	Taiwan ...... NT$85
France FFr6.50	Malaysia Rin4.25	Thailand Bht50
Germany DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong ...... HK$12	Netherlands Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr7.00	USA $1.00

FINANCIAL TIMES

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China's battle to get out of the red, Page 20

World News

Thatcher to discuss Gulf with Reagan

British Prime Minister Margaret Thatcher was expected to talk extensively about arms control and the Persian Gulf when she met President Ronald Reagan in Washington today.

US officials said Mr Reagan and his senior aides would urge Britain to play a larger role in the Gulf where US warships are shortly to begin escorting Kuwaiti oil tankers under the American flag.

Reagan reforms

President Ronald Reagan had reviewed all US covert operations, approving some and terminating others, since the Iran-Contra scandal was exposed, the White House said. **Reagan and Congress, Page 4**

Peruvian emergency

Peru declared emergency rule in four provinces south-west of Lima where 1,200 police were sent to end narcotics trafficking and rebel activity.

Waldheim solidarity

In a gesture of solidarity with President Kurt Waldheim, 15 Austrian veterans of the Second World War German army publicly appealed to US authorities to place them on the "watch list" of undesirable aliens.

Mozambique clash

Mozambican rebels said they killed 25 government and 11 Tanzanian soldiers, destroyed five tanks and captured nine ground-to-air missile launchers when they seized a town near the Malawi border.

Diplomat withdrawn

South Africa said it was withdrawing its ambassador-designate to France until further notice in a dispute over the jailing of a French teacher in a black South African homeland.

OAU contributions

Nearly half the member states of the Organisation of African Unity were behind on their contributions to the OAU liberation committee which co-ordinates black Africa's fight against South Africa.

Taiwan lifts ban

Taiwan, in the latest of a series of liberalisation moves, lifted an eight-year ban on tourists travelling directly to Hong Kong and Macao.

Hunger strike ends

A group of 48 South Korean Anglican priests ended a six-day hunger strike "to give politicians time to work out steps towards democracy" but television reporters called a one-day strike in protest against censorship.

Gonzalez peace talks

Spanish Prime Minister Felipe Gonzalez began talks with union and industry leaders in an attempt to end labour unrest but differences quickly emerged.

Aquino pledges peace

President Corazon Aquino flew to a region heavily penetrated by communist rebels and vowed to bring permanent peace to the Philippines before her term ends in 1992.

Diplomatic row looms

Turkey and France headed for a diplomatic row after Ankara cancelled a $65m contract with French electronics group Thomson-CSF for a nationwide civilian air traffic radar system. **Page 4**

Doctors sacked

The Sri Lankan Government sacked more than 1,600 striking doctors and dentists in a dispute over examination policies.

Archbishop arrested

Police in Rome arrested a Lebanese archbishop and eight other people after 3kg of heroin was found hidden in the cleric's vestments.

Business Summary

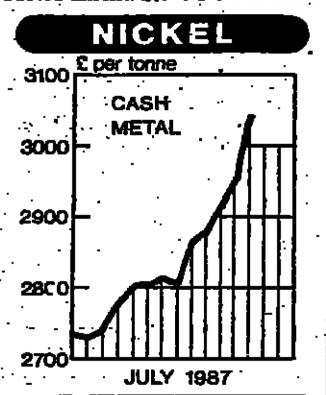
Continental Illinois chief resigns

WILLIAM OGDEN resigned as chief executive of Continental Illinois National Bank and Trust Company, the big Chicago bank which was bailed out by the US Government after a massive run on its deposits in 1984.

Mr Ogden, a former chief financial officer of Chase Manhattan, was one of two executives hired by the US Government in 1984 to help restore the health of the 12th biggest US banking group. Mr John E. Swearingen, a former chief executive of Standard Oil(Indiana) who was appointed chief executive of the holding company for the bank in 1984, will take over Mr Ogden's responsibilities when he leaves the bank on August 13.

MORGAN GRENFELL, UK merchant banking group, has drastically reduced its role as a primary dealer in gilts because of poor trading results and mounting overheads. **Page 20**

NICKEL prices continued to rise strongly on the London Metal Exchange on steel industry demand. The metal registered its largest gain this week - £84.50 - to close at £3,042 a tonne. **Page 30**



TOKYO: Nikkei average finished just 33.85 higher to 24,003.61 in extremely thin trading. **Page 42**

WALL STREET: the Dow Jones industrial average closed up 13.23 at 2496.97. **Page 42**

LONDON: Takeover news and a strong performance by the pound and government bonds drove UK equities to new highs. FT-SE 100 index closed 24.2 higher at its latest peak of 2,443.4 and FT Ordinary index was also at a high of 1,926.2, a gain of 17.6. **Page 38**

GOLD rose in London to $453.25 from $452.75. It rose in Zurich to $453.75 from $453.55. **Page 30**

DOLLAR closed in New York at DM1.839, FFr6.122, SFr1.5315, and Y150.85. It rose in London to DM 1.8370 (DM 1.8295); FFr 6.1150 (FFr 6.0925); SFr 1.5290 (SFr 1.5220); and Y150.50 (Y148.55). On Bank of England figures the dollar's index rose to 102.9 from 102.6. **Page 31**

STERLING fell in London to $1.6310 ($1.6320). It rose to DM 2.9950 (DM 2.9850); SFr 2.4950 (SFr 2.4850); FFr 9.9750 (FFr 9.9425); and Y245.50 (Y242.50). The pound's exchange rate index rose 0.2 to 73.5. **Page 31**

AMERICAN Telephone & Telegraph kept its strong profit recovery in second quarter as evidence mounted that the US telecommunications group is continuing to recapture market share from rivals. **Page 21**

JIM WALTER, Florida-based building materials and housebuilding company, has received a $2.03bn leveraged buyout bid from Kohlberg Kravis Roberts, Wall Street buyout specialists, at $50 a share in cash. **Page 21**

APPLICATIONS for BAA's £1.2bn ($1.95bn) flotation may total between 2m and 2.5m according to early estimates. **Page 42**

FIRST REPUBLICBANK, US banking group formed by June merger of Republicbank and InterFirst, reports second-quarter net loss of $313.2m. **Page 21**

AMR, American Airlines parent company, made second-quarter net profits of $92.2m or $1.51 confirming the gradual improvement in profitability throughout US airline industry since last year. **Page 21**

BA/BCal merger will create biggest airline outside US

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT, IN LONDON

BRITISH AIRWAYS, the UK's recently-privatised flag airline, and the independent "second force" international airline, British Caledonian, are to merge. The result will be creation of the biggest airline in the Western world outside the US.

A statement issued by the two airlines said that an offer by BA would be made by Lazard Brothers, the British merchant Bank, for the whole of the issued share-capital of the British Caledonian Group.

"Irrevocable undertakings" to accept the offer have been received in respect of approximately 40.1 per cent of the Caledonian aviation group's shares.

The proposed merger will be achieved by an offer of 115 new Ordinary shares of 25p each in BA for every 22 fully-paid £1 Ordinary shares in the BCal Group. The offer values BCal at about £237m, or £11.50 for each BCal share. The BCal element will represent some 13 per cent of the enlarged BA equity.

There is an alternative cash offer which values the BCal shares at £10.71 each.

The plan, which took the airline industry and the City of London by surprise, aroused immediate hostility from other UK airlines, from MPs and analysts who feared it would present other airlines with unfair competition and endanger jobs. The Government will probably be obliged to refer the plan to the UK's Monopolies and Mergers Commission, the statutory body which reviews all merger proposals.

The merger will also be studied by the Director-General of Fair Trading, Sir Gordon Borrie, and a Government decion on a referral to the Monopolies and Mergers Commission will be taken in the light of his report.

The merger, if it goes through, will create a combined UK flag airline carrying more than 22m. passengers a year, with a fleet of 191 aircraft, mostly jets, and an unduplicated route structure of more than 600,000 kilometres, covering the entire globe.

British Airways in the financial year ended last March 31 reported a pre-tax profit of £162m ($260m), while BCal group reported a loss of £19.3m for the year to October 31 last.

The statement said that the directors of both airlines believed the merger to be necessary in the best interests of shareholders and employees as well as the travelling public.

"The merger will enable the combined airline to meet the increasing competition from the giant foreign airlines which have emerged over the last two years, particularly in the US.

"British airlines are at present unable to develop their businesses in international markets except in the limited cases permitted through government agreement.

"Foreign airlines are not permitted to operate within the US, the world's largest aviation market, and following the recent collapse of liberalisation talks in Brussels it may be some years before British airlines are able satisfactorily to develop within Europe.

Mr Harry Goodman, chairman of International Leisure Group, which owns Air Europe, a BCal rival, said that the combined BA/BCal operation would control about 95 per cent of Britain's share of international scheduled airline capacity. "That's a monopoly by anyone's standards.

"BCal has demonstrated its inability to operate an efficient airline and have thrown in the towel. The Civil Aviation Authority must revoke their licences and licence other independent operators who can and want to compete.

The Civil Aviation Authority said it believed the merger raised "important issues" of airline competition

BA gave an assurance that BCal employees would have all their rights, including pension rights, safeguarded. BA employs about 39,500 and BCal group about 3,900.

The precise mechanics of the merger have yet to be worked out, but it is understood that BA foresees, at least for the immediate future, BCal continuing to fly under its own name with its own aircraft on those routes that do not duplicate those flown by BA.

Reaction, Page 16; Editorial comment, BA slipstream, Page 18; Lex, Page 20; Boost for London shares, Page 38

Jacques Chirac: ready to break off diplomatic relations

Iranians issue ultimatum to France

By George Graham in Paris

IRAN yesterday said that it would break off diplomatic relations with France unless the police controls on its Embassy in Paris were lifted within 72 hours.

The ultimatum, which seems certain to end in a complete rupture of relations between the two countries, brings to a head the two-week conflict over whether Mr Wahid Gordji, an Iranian official in hiding in his Paris Embassy, should give himself up for questioning by French police over last autumn's terrorist bombings in Paris.

Officials in Paris confirmed that the ultimatum had been presented in an official note from Iran's head of protocol to the French charge d'affaires in Tehran and said that there was no question that France's position would change.

Mr Francois Mitterrand, France's socialist President, and Mr Jacques Chirac, his right-wing Prime Minister, both spelled out this position over the past week.

Mr Chirac said that it was out of the question that Mr Gordji, who does not have diplomatic status, should not appear for questioning and that France itself was willing to break diplomatic relations if the Iranian continued to refuse to leave the Embassy.

Mr Mitterrand said in his Bastille Day address that France was not an enemy of Iran but that it would not give in to blackmail.

There has been some concern in Paris that, in the event of a break in diplomatic relations, Iran might try to stop the 15 people at the French Embassy in Tehran, who include eight diplomats, from leaving the country. French Foreign Ministry officials warned that, in this case, France might also

Continued on Page 20

OECD sees 1.5% German GNP growth

BY DAVID MARSH IN BONN

WEST GERMANY is heading this year and next for "sub-potential economic growth, persistently high unemployment and a still sizeable current account surplus," according to a generally critical report from the Organisation for Economic Co-operation and Development, published today.

Although the OECD praises the Bonn Government for virtually eliminating inflation and taking some measures to boost domestic demand, the Paris-based organisation calls for planned tax cuts due in 1990 to be brought forward.

A higher than planned ratio of government debt to gross national product "might have to be accepted for a few years" to sustain demand and investment, it says.

The Government's failure to stop subsidies rising and to deregulate protected areas of the economy "represent considerable shortcomings in policy implementation" which are damaging the medium-term growth outlook, the OECD says.

It is forecasting growth in West German gross national product of only 1.5 per cent this year and 2 per cent next, against 2.4 per cent last year.

This is well down from the 3 per cent growth rate for 1987 confidently forecast by the OECD in its previous annual survey on the West German economy last summer. This over-optimistic projection was maintained by the organisation up to the end of last December, against the advice of some OECD economists, for what were largely political reasons ahead of the January West German general elections.

Unemployment, at 8 per cent of the workforce this year and 8.25 per cent in 1988, will be appreciably higher than the OECD was forecasting a year ago, when it thought the rate would drop to 7.3 per cent in 1987.

The OECD's 1.5 per cent GNP forecast for 1987 assumes that growth will accelerate strongly during the rest of this year after a flattening of output since last autumn.

Commenting on the dashing of last summer's hopes that West Germany was heading for "durable expansion", the OECD says the negative effects on exports of the rising D-Mark and of lower demand from oil-exporting states have more than offset the positive effects of the cut in the international oil price.

The organisation believes that the country's record current account surplus will rise slightly further in dollar terms to $37 bn this year from $36 bn in 1986 before falling to $29 bn in 1988.

In spite of a sharp rise in import volumes and stagnating exports, the appreciation of the D-Mark - which has sharply lowered domestic prices of imported goods - is continuing to limit the expected fall in the current acount surplus, the OECD says.

In spite of the success so far of the February Louvre agreement to stabilise currencies, the OECD says that "huge international payments disequilibria" could spark off more upwards pressure on the D-Mark which would further dampen the growth outlook.

Rising subsidies, Page 2

£490m UK investment company bid agreed

BY DAVID LASCELLES, BANKING EDITOR, IN LONDON

BRITISH & Commonwealth, the financial services group headed by Mr John Gunn, yesterday launched an agreed £490m ($798m) takeover bid for Mercantile House, one of London's best known financial conglomerates.

The deal, which will result in the formation of Britain's largest investment management company, took the City of London largely by surprise. Only two days ago, Mercantile said that talks with a possible purchaser, widely believed at the time to be B&C, had been terminated. It transpired yesterday that they had only been put on hold while B&C finally made up its mind.

Mr Gunn said that B&C's principal aim in bidding for Mercantile was to acquire Oppenheimer, its investment management arm, which represented about a third of the business. The remaining two thirds would be sold off.

One stage of the disposal was announced yesterday: Credit Lyonnais, France's second largest bank, will buy Alexanders Laing & Cruickshank Holdings (ALCH), Mercantile's investment banking arm for approximately £75m. Other buyers will be found for Mercantile's money and foreign exchange broking businesses, which are among the largest in the world.

B&C is offering Mercantile shareholders a package of shares and preference shares worth 519p a share. A partial cash alternative is being underwritten by Barclays de Zoete Wedd, B&C's merchant banking advisers. Mercantile's shares, which have bucked and plunged with the takeover talk of the last few days, gained 46p to close at 534p last night. Although this suggested Mercantile might receive a counterbid, Mr Gunn said he was confident that his deal would go through because it had the support of Mercantile's board and the approval of the regulatory authorities in the UK and the US.

Mr Gunn and Mr John Barkshire, chairman of Mercantile, both said yesterday that the bid had been agreed on friendly terms. They strongly denied that there had been clashes of personalities or strong disagreement about price.

Mr Gunn pledged to find suitable buyers for Mercantile's broking business. "We want someone who can enhance the business and who understands that people are its main assets."

Oppenheimer will be combined with Gartmore, B&C's existing fund management business, to create an entity with some £10bn under its control. Mr Gunn said the two companies were complementary, both in terms of their geographical spread and their business strengths.

Credit Lyonnais said it had agreed to buy ALCH because it planned to build a worldwide investment banking business and wanted a stronger presence in London. It pledged to respect the independence of ALCH, whose businesses include stockbroking, gilts dealing and the discount market. Mr Mark Powell ALCH's chief executive welcomed the link with Credit Lyonnais because it would strengthen his company and create wider access to international markets. Credit Lyonnais secured ALCH against strong competition from another Continental bank, believed to be Dresdner Bank of West Germany.

B&C forecast yesterday that its profits for the half year ending June 30 would be not less than £68m. Mercantile estimated profits for the year ending April 30 at not less than £40m, down from £75.4m last year because of the effect of securities losses and heavy investment costs.

The deal was considered in the City yesterday to be highly significant for the continuing restructuring of the UK financial services industry.

Lex, Page 20; analysis, Page 26

Philippines sues Marcos for $10bn

BY RICHARD GOURLAY IN MANILA

THE PHILIPPINE Government yesterday filed a $10bn graft and corruption suit against former President Ferdinand Marcos in the first of 43 cases that will be brought against the former dictator and his business associates before August 2.

The civil action claims that Mr Marcos engaged in "theft of public funds, plunder of the nation's wealth, exortion, blackmail, bribery and other acts of grave corruption... to the grave and irreparable damage of the Filipino people" during his 20 year rule.

The suit seeks damages for suffering caused to the Filipino people. However, it does not cover an estimated $5bn-10bn that the Government alleges was salted away in Swiss banks during the Marcos years.

The Presidential Commission on Good Government, which is hunting down funds allegedly stolen during the Marcos years, has so far been unable to bring criminal charges against Mr Marcos and his business associates. Philippine law requires defendants in criminal cases to be present at their hearings and President Corazon Aquino has said that Mr Marcos, who fled

Continued on Page 20

EC warns US over trade bill

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

MR UFFE ELLEMANN-JENSEN, Danish Foreign Minister and current President of the EEC, has told Congressional leaders in Washington that Europe would be forced to retaliate if the US passes a protectionist trade bill.

Mr Ellemann-Jensen, who is in Washington for top-level meetings with Administration officials and on Capitol Hill, said in an interview he was stressing that Washington must avoid seeing its trade problems from a narrow domestic political and economic perspective.

His visit comes as the US Senate is completing work on its massive trade law reform bill. Mr Ellemann-Jensen's message is likely to be underscored by Mrs Margaret Thatcher, the British Prime Minister, who is scheduled to have a series of meetings, including one with President Ronald Reagan today.

Mr Ellemann-Jensen stressed that that if the US considered only its narrow domestic interests and passed a trade bill which contained provisions for automatic retaliation by the US when it judged its trade regulations were violated, the European Community would also be forced to retaliate.

'Such legislation would risk dismantling the international trading system and starting a vicious cycle of beggar-thy-neighbour policies,' he said in a speech to the National Press Club on Wednesday.

Among his concerns on this score is the risk that the Soviet Union would move to exploit a situation in which Washington and Moscow had negotiated an arms control agreement only for the Senate to balk at ratification.

CONTENTS

BALANCING THE RISKS AND REWARDS

Hongkong & Shanghai Banking chief William Purves: mopping up the rest of Marine Midland, Page 20

Bonn taken to task over rising subsidies

BY DAVID MARSH IN BONN

THE ORGANISATION for Economic Co-operation and Development has stepped up calls for West Germany to increase competition in its domestic economy as a means of improving growth prospects. Its annual report, published today, takes a critical look at the Government's lack of success in curbing subsidies throughout the economy and in carrying forward plans for deregulation and privatisation.

Government subsidisation of production activities has been steadily increasing in absolute, though not relative, terms in recent years, the report says. The most important recipients are outside industry—housing, transport, agriculture, private non-profit making organisations and services.

Commenting on the lack of progress in the Government's avowed aim to cut subsidies, it says: "Commitments inherited from the past or granted to powerful groups have proved to be major stumbling blocks." Government action in the field of deregulation has been "modest," focusing on reducing bureaucracy impeding the private sector.

The report sketches out a far more gloomy outlook for growth and employment than a year ago. It says that one of the reasons for the steady upward trend unemployment since the 1970s seems to have been a lack of wage flexibility and regulatory hindrances to growth of the services sector.

West Germany is one of the countries with the weakest labour absorption capacity in the private service sector, it says.

In the first four months of this year the unemployment rate was, at 8.75 per cent, more than eight times higher than at the onset of the first oil shock and almost three times higher than before the second oil shock. The jobless rate this year is projected at 8 per cent, well above the 7.3 per cent forecast for 1987 in last year's report.

With pressures from labour supply growth remaining moderate compared with other countries, "the root of the German unemployment problem seems to lie in insufficient net employment creation."

The OECD also says that the reduction in West Germany's potential growth rate from 4-5 per cent in the 1960s to 1.5-2.5 per cent in the mid-1980s appears to have been due to a marked slowdown in capital formation and in productivity.

It links West Germany's record current account surpluses with insufficient capital investment, rather than excess saving. The share of replacement investment in gross fixed capital formation has risen from 32 per cent in 1972 to 54 per cent in 1985, with a continued relative decline in new investment, from 9 per cent of output in 1972 to 5.5 per cent in 1985.

How Soviet example put off Europe

By Patrick Cockburn in Moscow

THE RISE of Eurocommunism—the shift towards greater independence from Moscow by many West European Communist parties over the past 20 years—was a reaction to social and economic failure in the Soviet Union, according to a senior Soviet economist.

In the first admission that the unattractiveness of Soviet Union as a model for other societies had undermined Communist parties abroad, Professor V. Dashichev writes in the daily Moscovskaya Pravda that its own supporters had become bemused by the difficulties and problems of the Soviet economy.

He continues: In my opinion the appearance of Eurocommunism, which started looking for alternative ways and models of socialist development as distinct from the Soviet experience, should be viewed as a kind of reaction to our social and economic troubles."

Major obstacle

Prof Dashichev, a department head at the Institute of Economics of the World Socialist System in Moscow, goes on to say that the overcentralised economic system in Moscow also provided the major obstacle to closer co-ordination of its economy with those of its East European allies and other Socialist countries.

"Integration existed only in the upper echelons of power through administrative and bureaucratic channels," he says, adding that it is often easier for the citizen of a Socialist country to travel to the West than into the Soviet Union.

The article goes beyond previous criticism of past political leadership and economic management in the Soviet press by drawing the conclusion that the Soviet Union has been in part to blame for its troubled relations with Communist parties out of power in Western Europe and in power in Eastern Europe.

Prof Dashichev's article is also a sign of the more radical criticism in the Soviet press since the Communist party central committee adopted a radical economic reform programme at its meeting on June 25 and 26. Mr Mikhail Gorbachev, the Soviet leader, also strengthened his position by appointing three new members to the politburo.

Strongly attacking "Socialist conservatism," Prof Dashichev assails "the material and egocentric interests of the bureaucratic apparatus which has swelled to gigantic proportions."

He attributes the development of the present system of runing all the day-to-day activities from the centre to Stalin, who ran the economy like an army. "But society cannot live and work according to army rules."

Old system

Soviet victory in the Second World War "seemed to sanctify the Stalinist management mechanism and rendered it untouchable. The guardians of the old economic system did not want to ask themselves the simple question: why has a country which has no rival in the world in its natural resources turned into a country of constant shortages? Why do we have one of the lowest standards of living in Europe?"

Earlier in the week Mr Gorbachev told a meeting of the editors of Soviet newspapers and journals that he was conscious that some people felt that criticism went too far.

But he went on: "I have no ground for any serious political reproaches. If any extreme views have appeared—they have appeared and we have seen them—then they were within the framework of the fight for socialism and its perfection."

Mr Gorbachev evidently feels confident that present criticism is within the Soviet system and greater freedom of expression is leading to a broader consensus supporting the government rather than the development of an opposition undermining the basis of Soviet society.

COMMUNITY RESOUNDS TO THREATS OF GOVERNMENT VETO

Chorus of protest greets EC tax scheme

BY OUR FOREIGN STAFF

THE EUROPEAN Commission's plans to reduce the difference in indirect taxation between all the EC member states, in order to create freer movement across national boundaries, produced a predictable howl of protest and threats of veto from finance ministries throughout the Community yesterday.

The proposals, which would do away with tax checks at borders, were drawn up by Lord Cockfield, the British vice-president of the Commission who is also responsible for the internal market. They contain elements which are unacceptable to practically everyone.

The idea that zero rates of value added tax on items such as food, newspapers and children's clothing, might come under threat in the UK drew a predictably hostile response from politicians on all sides in Britain.

Mrs Margaret Thatcher, the Prime Minister, told the House of Commons that there was only a "just negligible" chance of the measures being agreed by the 12 governments. "We must be able to determine our own structure of VAT," she said, ading that "not only would we vote against what Lord Cockfield is proposing but a number of our European partners would as well."

The Prime Minister gave several firm promises during the recent general election not to abolish Britain's zero-rating on fuel and food, and hinted strongly that it would also defend the same position on children's clothes and shoes.

Little attention has been paid, however, to the insistence of the Commission, and Lord Cockfield in particular, that exemptions can always be applied for on questions like zero rates, just as they are at the moment.

Despite Britain's fury, it is likely to be other member states which find the present proposals most difficult to stomach—with Denmark, Ireland and Luxembourg, the three smallest member states, by far the most drastically affected.

Ireland is strongly opposed to the EEC proposals on harmonising indirect taxes because of the dramatic effect they would have on government revenues. Despite a potential bonanza for Irish consumers implied by the proposals, Mr Ray MacSharry, the Minister of Finance, made it clear he would veto them "in their present form."

With a deficit between government spending and revenue projected this year at I£1.2bn (£1.06bn), almost 7 per cent of gross national product, there is little room to reducing tax levels if the debt of more than I£24bn is to be brought under control.

The entire package looks ghastly to contemplate in Copenhagen, where initial calculations suggest that the loss of tax revenue would total a horrifying 4.5 per cent of GNP. That would result from the reduction of Denmark's current 22 per cent standard VAT rate to 20 per cent—the maximum proposed by the European Commission—and cutting excise duties across the board

> The proposals contain elements which are unacceptable to practically everyone.

Any such suggestion is likely to fall foul of virtually all political parties in Denmark, where high taxation, both direct and indirect, has become an accepted part of national life, in order to finance very high standards of social security. The Danish Parliament is also very jealous of its powers to decide national taxation, and not prepared to see any part of them transferred to Brussels.

The effect of the proposals on Luxembourg would be, if anything, more drastic—in the opposite direction. The Grand Duchy benefits from a relatively huge cross-border trade from neighbouring Belgium, France, the Netherlands and West Germany, thanks to its low rates both of VAT and excise duties. Falling in line with the Commission proposals would produce an astonishing 7.6 per cent of GNP in additional tax revenues—but almost certainly at the expense of a very significant slice of national economic activity.

"The tax differential is virtually a *raison d'etre* for many businesses in Luxembourg, so it is hard to know what alternative they could turn to," one EC official said yesterday.

The Greek position on the Commission's tax proposals is described by officials as "very reserved to negative." The grounds are that the weakness of the Greek economy, which is suffering from high domestic and external deficits and double digit inflation make the authorities reluctant to give up national powers of decision-making on fiscal matters.

More specifically, the Greeks are concerned that the Commission proposals would impose limitations on efforts to increase revenue from taxes and might cross tax system reforms, such as those being prepared in connection with the 1988 state budget which aims to boost revenue.

Italy's Ministry of Finance was yesterday noncommittal. Given the fact of a caretaker government in Rome and the current effort by Prime Minister-designate Giovanni Goria to form a new coalition, the Ministry said it would await formal receipt of the Commission's plan before reacting. Officials said they would study the recommendations.

Community airline reform faced with another delay

BY TIM DICKSON IN BRUSSELS

A potentially serious clash between the European Parliament and EC member states is looming over the issue of airline reform. It could hold up agreement on the Community's package of cheap air fares until at least the end of the year.

At stake is not only the power and influence of MEPs but the practical impact of the Single European Act, the recently introduced reform package designed to amend the Treaty of Rome and streamline the workings of Community institutions.

The painfully negotiated measures to open up European airlines to move competition and encourage cheaper air travel were frustrated last month by the dispute between Britain and Spain over the status of Gibraltar airport. Spain ultimately refused to put its name to the proposals, which had to be agreed unanimously.

But while diplomatic talks are continuing in an effort to resolve the problem, a new difficulty has arisen following the introduction of the Single European Act on July 1. This gives new powers to the European Parliament, notably a so called "co-operation procedure" when issues are dealt with on a legal basis known as Article 100A.

At this week's European Parliament transport committee meeting MEPs decided overwhelmingly to insist that at least the part of the airlines package relating to inter-regional services (on which they have not yet expressed a formal opinion) should be reubmitted by the European Commission and discussed on this Article 100A basis. That means the issues would have two readings in (and two chances to be amended by) the European Parliament, a process which experts agree could not be completed until December at the earliest. Commission and Council officials have been hoping that, Gibraltar permitting, the reforms effectively agreed at the end of June could be formally approved at the October meeting of EC transport ministers.

Moscow admits higher Afghan casualties

SOVIET and Afghan Government casualties have risen in Afghanistan following an increase in attacks by guerrilla forces in recent months, Soviet Foreign Ministry spokesman Mr Boris Pyadyshev said yesterday, Reuter reports from Moscow.

He said that guerrillas fighting the Soviet-backed communist Government in Kabul had stepped up attacks since Afghan leader Najib declared a unilateral ceasefire last January.

"The (guerrillas') side has made use of this unilateral cessation to military activity by Soviet and Afghan (Government) troops to exercise military actions," Mr Pyadyshev said.

He said the guerrillas had also been using modern weapons supplied by the US. These included shoulder-held heat-seeking US Stinger missiles used to down scores of helicopters and planes.

"This created additional difficulties...and led to additional casualties among Afghan and Soviet troops and air force," he said, but gave no casualty figures.

He said, without giving details, that measures were being taken to end this "short-lived superiority."

The Soviet Union sent troops into Afghanistan in December 1979 and has an estimated force of 115,000 there.

Neither Moscow nor Kabul publishes details of military clashes but a US official said this month that co-ordinated guerrilla units had for the first time driven into retreat a large Soviet force including elite troops.

The official, who asked not to be named, said the clash took place in Afghanistan's Paktia province bordering Pakistan.

Three sides start talks on Spanish wage agreement

BY TOM BURNS IN MADRID

SPAIN'S Prime Minister, Mr Felipe Gonzalez, chaired an opening round of talks with unions and employers yesterday aimed at establishing a three-year wage agreement and avoiding the widespread strikes that shook the country earlier this year.

The tripartite framework of the talks is a return to the traditional approach to collective bargaining and signifies the end of hopes by Mr Gonzalez and his ruling Socialist Party that employers and unions would negotiate agreements on their own.

The absence of any nation-wide agreement governing 1987 pay awards triggered industrial action in several sectors during the spring.

In an attempt to agree a far-reaching pact which will last through to 1990 when a general election is due, Mr Gonzalez has already announced that both employers and unions will be able to contribute with their ideas to the national budget.

In the run-up to yesterday's meeting Mr Gonzalez went to considerable lengths to drive home the message that Spain's trade balance is being threatened by the impact of EC imports and that industry has to improve its productivity radically.

Union leaders, for their part, have called for a more progressive economic policy with greater budget allocations for unemployment benefits and for retraining. Mr Gonzalez's bid for productivity-linked pay awards has been enthusiastically endorsed by the employers but have been countered by union claims that wages and industrial benefits lag behind those in other Community nations.

Bonn wary about visit by Honecker

By David Marsh in Bonn

THE WEST German Government made clear yesterday that Mr Erich Honecker, the East German leader, will be given a somewhat nervous welcome when he arrives for his long-awaited official visit in September.

Mr Wolfgang Schaeuble, minister at the Chancellor's office responsible for arranging the trip, which was announced on Wednesday evening, said three agreements would probably be signed during the visit. They concerned co-operation on the environment, science and technology and nuclear energy.

The Bonn Government, which recognises East Germany as a separate state but not as a foreign country, clearly faces a host of delicate problems on exactly how to treat Mr Honecker, who will be the first East German head of state to come to West Germany.

At a news conference, Mr Schaeuble did his best to play down the web of protocol difficulties likely to hang over the visit.

As a "decisive point" underlining Bon's view that the two German states constitute a single "Fatherland," Mr Schaeuble said that Mrs Dorothee Wilms, the Minister for Inner-German Relations, would be part of the official Bonn team talking to Mr Honecker.

Mr Hans-Dietrich Genscher, the Foreign Minister, is likely to meet Mr Honecker and Mr Oskar Fischer, his East German opposite number but will not play a central role in the event.

Mr Schaeuble yesterday said Mr Honecker would be given the appropriate welcome accorded visiting heads of state,

The only previous meeting between East and West German leaders on German soil was in December 1981, when Chancellor Helmut Schmidt saw Mr Honecker in Schorfheide, north-east of Berlin.

Paris to fight on Boussac aid

BY QUENTIN PEEL IN BRUSSELS

THE FRENCH Government yesterday served notice that it will fight the decision by the European Commission to demand the largest-ever repayment of a state subsidy to industry — FFr 338m (£34m) from the Boussac textiles group.

Paris has been given two months to comply with a Commission order to recover the aid, amounting to one third of a total FFr 999m paid to the group to save it from bankruptcy between 1982 and 1985. It can also discuss the method of repayment during that period.

Mr Alain Madelin, the Industry Minister, said he was astonished by the action—approved on Wednesday night after the French Commissioners—Mr Jacques Delors, the president, and Mr Claude Cheysson—abstained from voting.

French officials insist that the aid to the Boussac Saint-Freres group, granted when both Mr Delors and Mr Cheysson were members of the then Socialist Government, conformed with Community rules, being tied to the restructuring and recovery of the group. Mr Madelin said he did not rule out using legal means to oppose the ruling—which officials in Brussels took as a clear indication of his intention to challenge it in the European Court.

Mr Peter Sutherland, the Commissioner responsible for competition, has pushed through the decision in spite of the strong opposition of Mr Delors. He argued that it was a blatant infringement of EC competition rules, and that the payment of the state aid was never even noified to the Commission, quite apart from not being in accordance with textile industry guidelines agreed in 1971.

Singapore charge over Bofors

A SINGAPORE arms industry executive was charged yesterday with taking $1.2m in bribes from Sweden's biggest ordnance company, Bofors, Reuter reports from Singapore.

Tan Kok Cheng (38) was charged in court with 51 corruption and forgery offences concerning Swedish arms exports to Singapore. He was accused of receiving the money while acting on behalf of the Singapore armed forces, a court official said.

He was also charged with forging documents, giving false information and corruptly agreeing to accept about $900,000 for helping Bofors set up a proposed missile manufacturing plant

Tan, general manager of Allied Ordnance Company of Singapore (AOS) was granted bail of $500,000. The alleged offences were said to have taken place between 1984 and 1986 in Sweden and Singapore.

A Ministry of Defence statement said Tan was arrested after investigations by Singapore's Corrupt Practices Investigation Bureau showed prima facie evidence

Last April Sweden suspended arms sales to Singapore following disclosures in Stockholm that Bofors arms shipments to the island state might have been re-exported illegally. Swedish law prohibits arms sales to countries in "areas of conflict."

The Ministry statement said the charges against Tan were not related to the Swedish Government's investigations into the sale of Bofors RBS-70 robot missiles to certain Middle East countries. All RBS-70 missiles purchased by the Singapore Defence Ministry from Bofors were accounted for, it said.

Lisnave restructures its debts

BY DIANA SMITH IN LISBON

LISNAVE, PORTUGAL'S most important ship repair yard and one of the world's largest, has reached an agreement with its creditors to restructure its Esc 25bn (£107m) debt.

The yard, which was part-nationalised in the 1974 revolution when nearly 40 per cent of its capital was taken over by the state, suffered for many years from continual industrial agitation, overmanning forced by political militants, and the after-effects of the 1978 oil crisis.

The agreement reached with the company's 15 banks, led by Banco Portuguese de Atlantico, Portugal's largest nationalised bank, provides for a 10-year consolidation of the debt, at two interest rates—one that will vary according to Lisnave's performance and another that is a fraction of market rates. Lisnave has a grace period until the beginning of 1990 before repayment begins.

The yard has recently made energetic and successful efforts to cut losses, reduce overmanning an dstreamline operations. Jobs have fallen from their peak of 10,00 to 4,200.

With the fal lin crude oil prices and Lisnave's improved image with clients, orders for repairs have picked up dramatically and in the first six months of 1987 billings were 97 per cent higher than in 1986. Lisnave expects to earn Esc 12bn from repairs this year.

US back on terms with Athens

By Andriana Ierodiaconou in Athens

ATHENS AND Washington appeared set to mend fences yesterday after a two-week quarrel over US allegations of Greek contacts with Middle East terrorists which threatened to scuttle negotiations on the future of the four US military bases in Greece.

A Greek government spokesman said yesterday that Athens considered "satisfactory" a letter on the substance of the crisis addressed to the Foreign Minister, Mr Karolos Papoulias by Mr Michael Armacost, US Under-Secretary of State for political affairs. Its contents would be released in a few days.

Earlier this week, Greece banned Mr Armacost from visiting Athens during a scheduled trip to the region, demanding that Washington first issue a written retraction of its allegations. His journey was subsequently postponed. A Greek government spokesman said yesterday that consultations were under way for a possible visit by Mr Armacost to Athens next week.

Franc's strength helps Swiss terms of trade

By William Dullforce in Geneva

SWITZERLAND'S TERMS of trade, boosted by the strength of the Swiss franc, improved in the first half of 1987, bringing a slight decline in the country's habitual trade deficit in spite of falling exports and rising import demand.

Merchandise exports, including precious metals, totalled SFr 32.8bn (£13.4bn) in the first six months, according to preliminary estimates by the Swiss Customs. This represented declines of 1.8 per cent in volume and 2.3 per cent in nominal value compared with the first half of 1986.

Imports climbed by 5.8 per cent in volume but declined by 1.8 per cent in nominal terms to SFr 36.7bn, reflecting a 7.2 per cent fall in import prices measured in Swiss francs.

The six-month merchandise trade deficit at SFr 3.96bn was 1.2 per cent lower than in the corresponding period last year. The deficit is always more than outweighed by the surplus on services.

Green and Royal blue mix to brighten Portuguese elections

Charles Hodgson on ecologically-minded monarchists

FOR A PARTY contesting a general election campaign, Portugal's monarchist Partido Monarquico seems uniquely unconcerned about winning or even sharing power.

In part this reflects the reality of being a tiny, financially strapped party with a level of popular support too low even to register in the opinion polls. But it also reflects a deliberately unconventional approach to politics that has brought a refreshing lift to what is widely felt to have been a dull election campaign.

Whoever wins on Sunday—it is expected that the outgoing Social Democrat government of Mr Anibal Cavaco Silva will be returned to office—it seems that the PPM will be, if not content, then at least ruefully satisfied.

The monarchists have campaigned on a platform that is decidedly more green than royal blue. Its principal themes, often expressed with a lyricism and simplicity that borders on the naive, have been the protection of the environment, agricultural reform, control of urban development and the preservation of Portugal's cultural identity.

One PPM television advertisement talks of keeping Portugal "open to books, music and other good things from Europe but only opening the door to what we want, when we want it."

Restoration of the monarchy appears in campaign literature almost as an afterthought. The last king of Portugal, Dom Manuel II, was exiled in 1910 when the Republic was founded. Dom Duarte, the current pretender, though resident in Portugal, plays no role in the PPM campaign.

The PPM has, like many European green parties, seen its ecological banner picked up by the main political parties. But it has also seen its once distinctive sky-blue and white colours expropriated by parties from right to left. Even the Communist coalition, the CDU, has used blue and white to adorn its otherwise garish election murals and campaign propaganda.

For the PPM and its leader, Mr Goncalo Riberio Teles, an architect and Lisbon city councillor, this diffusion of its idea is all to the good. "We exist to serve the country, not the party," he says.

Mr Miguel Estves Cardoso, A 31-year-old writer and researcher who is heading the PPM list for the European Parliament elections held concurrently with the national poll, emphasises this point: "We do not want to govern," he says. "We want to act as a pressure group or lobby ensuring that the other parties take up our ideas and act on them."

But he is scathing about the country's other main green grouping, which comes under the Communist Party: "It's what we call a watermelon party—green on the outside but very red within. They vote as the party tells them."

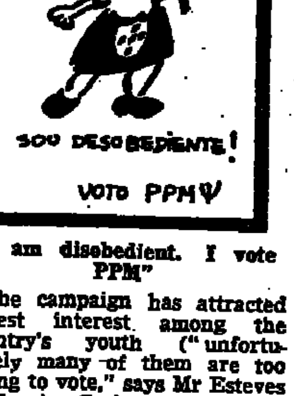
The PPM was born in the whirlwind of political activity that followed the April 25 1974 revolution. It linked former members of the loosely-organised monarchist cause with environmentalists and those concerned with preserving Portuguese culture. The PPM was part of the first provisional government, formed in May 1974, which linked Communists, Socialists and Social Democrats.

As the prospect of restoration of constitutional monarchy receded in the wake of the revolution, the PPM gradually shifted its emphasis towards ecological issues.

It has been helped in this campaign by an awakening of concern in Portugal about potential risks to the environment of uncontrolled economic development, particularly since the country's entry into the European Community in January 1986

Nuclear energy has also been on the agenda since the accident at Chernobyl, though Portugal was the only European country not affected by the cloud of radioactivity. News that the Spanish were planning to build a laboratory for testing nuclear waste disposal technology 7kms from the northern Portuguese border provoked a storm of protest and has provided the PPM with a ready-made election issue.

The PPM's campaign has been a political fun-run, featuring amateurish anarchic television ads, slightly subversive propaganda and rock concerts. It has been run on a shoestring: the party entered the campaign boasting a warchest of only Esc1,000,000 (£4,250).



"I am disobedient. I vote PPM"

The campaign has attracted widest interest among the country's youth ("unfortunately many of them are too young to vote," says Mr Esteves Cardoso), offering an attractive contrast to the staid and rather unimaginative opposition.

Some feel the party has taken its "alternative" approach too far, however, and risks trivialising its platform in the eye of potential voters.

Like all marginal parties, the PPM faces the handicap of being regarded as a protest vote or worse, as a vote wasted altogether. In the past it has been unable even to attract closet monarchists from the mainstream political parties, while the adoption by its opponents of the PPM's more popular environmental causes, risks eroding its pulling power as an ecology party.

However the electorate votes on Sunday, the PPM will claim that its unconventional campaign has proved at least a partial success. It has raised public awareness of environmental issues and the need for Portugal to stand up for itself in the European Community.

And of course, it has been a lot of fun. In this the PPM campaign has broken both rules of the game: it does not matter how you play, and it does not even seem to matter whether you win.

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OVERSEAS NEWS

Gandhi assails dissidents after election victory

BY K. K. SHARMA IN NEW DELHI

MR RAJIV GANDHI, the Indian Prime Minister has launched a counter-attack on his opponents in the ruling Congress-I party following the easy victory of Mr R. Venkataraman, his candidate for the presidency, over his opposition rival, Mr V. Krishna.

Venkataraman—easy win

Mr Gandhi began his political counter-attack by expelling three former ministers who are considered dissidents and thought by him to be challenging his leadership. They were expelled on Wednesday night for "anti-party activities."

The three are Mr Arun Nehru, his cousin and former close aide whom he dropped from his government last year, Mr Arif Mohammed Khan, former minister of energy who resigned from the government last year, and Mr V. C. Shukla, a minister in Mrs Indira Gandhi's government.

All the three are known to be among the leaders of the growing group of Congress-I members of parliament who are challenging Mr Gandhi's leadership. Although they have never criticised Mr Gandhi openly, they have made it known they want a change in the leadership and have often spoken of the need to cleanse the government and rid it of corruption.

However Mr Gandhi has so far taken no action against his main opponent in the Congress-I. This is Mr V. P. Singh, former minister of defence, who resigned three months ago after ordering an inquiry into the agreement with the Swedish company of Bofors for purchase of heavy artillery worth \$1.4bn. Mr Gandhi has been under severe attack from the opposition on the Bofors deal because of revelations of bribes and payoffs.

Mr Singh recently launched a drive to end corruption and had started a "mass contact" campaign that was clearly aimed at Mr Gandhi. Although the campaign is so far confined to Uttar Pradesh, the main state in the Hindi-speaking heartland in northern India, this could be enlarged and may pose a national threat to Mr Gandhi.

Mr Singh has been careful never to name Mr Gandhi except to pledge his loyalty to him. This, coupled with Mr Singh's clean image and popularity, has meant that the prime minister has so far been reluctant to take disciplinary action against him even though many of Mr Gandhi's supporters are demanding his expulsion from the Congress-I. Many believe the next step will be against Mr Singh now that Mr Gandhi has made it clear he will not tolerate dissidence in the party

Sri Lanka strike widens

THREE hundred government doctors in nine towns yesterday joined the strike called by the government medical officers association which paralysed the hospitals in Colombo and two provincial capitals on Wednesday, reports Melvyn de Silva from Colombo. According to the association the number on strike by yesterday afternoon, was "well over a thousand."

Some 7,000 to 8,000 nurses and para-medical staff will also join the strike at the weekend. Only "Emergency cases" will be treated, the association said.

The doctors association is protesting against a government decision to allow 200 students of the private Colombo north medical college to sit the final examinations conducted by the medical faculty of Colombo University.

Zia blames Afghan agents for bombings

By Mohammed Aftab in Islamabad

PRESIDENT ZIA of Pakistan yesterday blamed Afghan agents for the bombing campaign which has killed at least 75 people in Karachi and wounded several hundred more.

No group has yet claimed responsibility for Tuesday's attack when four car bombs exploded during the evening rush hour in the worst terrorist outrage in Pakistan's history.

But President Zia was uncompromising yesterday in his claim that Afghan agents were behind the bombings and indicated that there could be more to come.

"Agents opposed to Pakistan's policy towards Afghanistan are the real culprits. These sabotage activities are directly aimed at forcing Pakistan to change its Afghanistan policy," he said, reinforcing a Karachi municipal government statement that the explosions appeared to be the work of "saboteurs of foreign origin."

President Zia said the Cabinet of his civilian Prime Minister, Mohammad Khan Junejo, who has cut short a trip to Japan and South Korea cemause of the bombings, would meet to draw up tough new anti-terrorist laws on Sunday.

"We are tightening the noose on the terrorists and we are confident that they will be arrested soon. We have started a campagin against terrorism. We have to fight it out, to launch a war,"

Pakistan has supported the guerrilla efforts of the Afghan mujahideen fighting against the Soviet "puppet" administration in Kabul since the Soviet occupation in 1978. The Pakistan Government has been adamant in arguing fo rthe withdrawal of the Soviet occupation force and in saying that no solution would be acceptable unless it included proposals for an administration acceptable to and including the mujahideen. Karachi, a bustling seaport of 7m on the warm waters of the Arabia Sea, has a history of ethnic and political unrest. But until Tuesday it had been spared the terrorist bombings that have plagued four other Pakistani cities this year.

Pretoria-Paris diplomatic row intensifies

SOUTH AFRICA withdrew its ambassador-designate to France in a diplomatic row over a French teacher jailed in a black homeland, Reuter reports from Johannesburg.

Mr Pik Botha, South Africa's Foreign Minister, said that Mr Hendrik Geldenhuys would return to South Africa until "the matter takes another course."

French President François Mitterrand last month delayed accepting Mr Geldenhuys' credentials in protest at the imprisonment of teacher Mr Pierre-Andre Albertini.

In Paris, a spokesman for the French Foreign Ministry said the recall of Pretoria's ambassador-designate would not alter France's diplomatic representation in South Africa.

France is represented by a full ambassador, while Pretoria's mission in Paris is headed by a *charge d'affaires* in the absence of an accredited ambassador.

In a sharply-worded statement on Tuesday, President Mitterrand reaffirmed that he would refuse to accept Mr Geldenhuys' credentials as long as Mr Albertini was locked up in the South African homeland of Ciskei.

"I cannot accept that the young Frenchman Albertini is in a South African prison simply because of his political and moral ideals," Mr Mitterrand said during a traditional Bastille Day television interview.

"I have already signalled that I cannot accept the credentials of the new South African ambassador so long as this situation has not been modified," he added.

● Thousands of Cape Town pupils boycotted classes yesterday in protest at the death of an African National Congress (ANC) guerilla in a skirmish with police last week, township residents said.

They said that at least five schools in townships zoned for people classified by Pretoria as mixed-race or coloured were virtually empty due to protest over the death of Mr Ashley Kriel, a former student leader.

A spokesman for the Department of Education and Culture, which administers coloured schools, said: "Attendance at just a few of our schools in the (Cape) peninsula is very low."

He said only a handful of the area's 84 coloured schools, which have a total of 31,000 pupils, were affected.

Mr Kriel, 20, died at a house in Cape Town's Athlone township last Thursday. Police said he confronted officers who went to arrest him and then shot himself

His family and township groups opposed to apartheid race segregation have questioned the circumstances of his death.

Mr Kriel fled the country in 1985, after clashes between security forces and student protesters, to join the ANC.

A prominent student leader in Cape Town's Bonteheuwel township during his teens, he had kept a low profile since his return to South Africa this year.

Pupils said they were also protesting against Government plans to start disciplinary hearings next Monday against 72 teachers in the region who did not administer examinations at the end of the troubled 1985 school year.

François Mitterrand

Richard Gourlay reports on a Philippine rescheduling package

Philippine debt deal calms critics

MR Jaime Ongpin, Philippine Finance Secretary, will sign a debt rescheduling agreement with commercial creditor banks in New York today that all but the most carping critics have said is a good deal.

However, Philippine Investment Notes (PINs), which Mr Ongpin hopes will reduce further the interest burden from the country's \$27.8bn debt, are still being refined after bankers initially gave them a cool reception.

The agreement to be signed, despite a flurry of last minute negotiations, brings the interest rate on \$10.3bn of term debt down from around 1.625 per cent over London interbank offered rate (Libor) to a spread of ⅞ per cent. The first principal payment is due after 7½ years and the term is extended to 17 years.

But the deal will also ease the minds of bilateral lenders, to whom Manila will need to turn for much of the finance for its land reform plans, and potential long term investors anxious to know foreign exchange will be available for their projects.

Manila has also safely steered the deal through before a new Congress sits on July 27. Bankers and Finance Department officials agree that eager Congressional questioning could have led to time-consuming delays even though approval is an executive decision. Mr Ongpin quietly dropped his earlier threat to reopen the debt talks—a threat he made when Argentina was granted slightly more favourable rescheduling terms than the Philippines—at least in part with Congress in mind.

The fate of the PINs is less certain. The Government intends them to replace or supplement the existing programme for investors to swap debt for equity. The original PIN was launched in March by Mr Ongpin in the middle of the debt negotiations with the 12 member creditor committee of banks and was rejected. Since then it has been modified extensively, but when it was presented to bankers in New York last month they remained unimpressed.

In a recent version—redrafting is continuing in Manila—the banks will be offered PINs at a discount in place of part of their interest due. The notes will then be convertible at the central bank into pesos at face value. As the notes will be non-interest bearing, a bank will need to have a client who wants to invest in the Philippines and would previously have used the secondary market to buy debt (currently at a 30 per cent discount).

However, the central bank will differentiate between priority investments and non-priority investment. Those involved in agribusiness, exports involving technology transfer, labour intensive industry and others considered priority on an ad hoc basis by the Board of Investments, will have to buy 20-25 per cent of their equity requirement through *PINs* and the rest through the secondary paper market.

Ongpin—success at last

Non-priority investors will have to fund 90 per cent through PINs. In addition banks may periodically be asked to underwrite PIN issues. There are two drawbacks—apart from some regulatory hurdles to be cleared at the Federal Reserve.

Firstly, the rate being considered for the PIN appears to be more expensive than the market discount for Philippine debt on the secondary market. Secondly, the commercial creditor banks are reluctant to increase their exposure to the country, especially as they are likely to be asked for new money in October 1988 when the Philippine recovery plans demand new money.

The debate is being watched with more than passing interest by Shearson Lehman Brothers, which a year ago announced it would launch a \$250m Philippine fund with the International Finance Corporation. Creditor banks would then be converted into investments in the Philippines through the debt for equity swap programme—or its successor PINs.

If the PIN legislation requires up to 25 per cent of an investment to be financed through PINs — and therefore new exposure to the Philippines—then "Shearson will have to go back to the drawing board. New exposure now would not be the ideal thing," one representative banker in Manila said.

The entire discussion of PINs and Philippine funds is rendered academic if investors decide they do not like the investment climate. Since August last year the monetary board has approved \$134m in debt equity swaps, of which only \$78m have taken place. There is also some concern that, with the Government's privatisation programme slowing down through the Asset Privatisation Trust and the sale of government-controlled corporations, the range of good investments has been limited.

Hopes rise of end to Fiji political crisis

By Our Foreign Staff

HOPES have risen that the post-coup political crisis in Fiji may finally have been defused following a series of encouraging developments on the South Pacific island in the past few days.

The most recent came yesterday when Australian and New Zealand trade unions agreed to lift trade bans imposed against Fiji after the May military intervention deposed the newly-elected government of Dr Timoci Bavadra.

The decision was made in the wake of two other developments:

● A round of meetings of a constitutional review committee, with the important participation by four representatives of the government. The representatives attended their first meeting on Monday. The committee is grappling with the vexed question of how the constitution should be changed in order better to protect the rights of indigenous Fijians.

Those behind the coup maintained that the new multi-racial government was dominated by Indians, who are in a small majority in Fiji.

● An agreement was announced earlier this week on payments to sugar cane growers which would allow cane harvesting to go ahead an dsugar mills to restart. The harvest is critical to the recovery of Fiji's economy.

The trade sanctions are due to end on Monday.

Reagan wants to keep Congress better informed

BY LIONEL BARBER IN WASHINGTON

PRESIDENT RONALD Reagan intends to seek talks on how to keep Congress better informed of covert operations, the White House said yesterday.

The announcement came after damaging testimony to the Iran-Contra congressional inquiry yesterday by Mr Reagan's former National Security Adviser, Rear Admiral John Poindexter, who said he withheld information from Congress on an undercover operation to arm the Nicaraguan Contra rebels.

Several leading Democrat senators also want to discuss changes in the oversight laws which stipulate that Cogress should be informed of covert operations before they are carried out. Many members, including Republicans, have been shocked by the Reagan Administration's decision to bypass Congress while selling arms to Iran and supporting the Contras.

Admiral Poindexter, spelling out the Reagan Administration's earlier effort to get round the oversight laws by using the National Security Council staff, said President Reagan in effect designated them to help the Contras during the 1984-85 ban.

"The president in effect wanted the NSC staff to make sure the Contras remained alive until he could turn the vote around in the Congress," he said.

Admiral Poindexter on Wednesday declared President Reagan innocent of all knowledge of the diversion of profits from the arms sales to the Contras, saying he approved the scheme and did not inform Mr Reagan. This was to protect him from political embarrassment.

The 50-year-old admiral thus removed suspicion that Mr Reagan knew about the diversion of funds to the Contras, but his testimony is unlikely to change the American public's general scepticism and his tale of deceit and intrigue within the administration still leaves the President vulnerable. He has 18 months to serve in his term.

The congressional inquiry, which was stopped in its tracks by the virtuoso performance before the cameras of Colonel Oliver North, the Admiral's White House surrogate, has three weeks to run with several key witnesses to be called to testify.

Several Democrat members are unhappy about the way the committee chairmen allowed Colonel North and his abrasive lawyer Mr Brendan Sullivan to dominate the proceedings. They are also critical of the method of questioning by the counsel to the House and Senate. Mr John Nield, chief House counsel, is coming under fire for his rambling style which prevented members countering Colonel North's highly political statements in support of the Contras.

"Colonel North was the turning point for the committee and they blew it," said one congressional observer.

Rebel attacks strain Sandinista lifelines

BY PETER FORD

THE DIRT road from Jinotega to Bocay runs through some of the most strikingly beautiful countryside in Nicaragua. But it is also one of the most dangerous places in all Central America.

The 100-mile track to Bocay, twisting and turning through glossy green coffee plantations, affords glorious views of mountains blanketed in virgin rain forest, with low clouds drifting down the valleys.

At this time of year, as the rainy season starts, waterfalls plunge down hillsides, the air heavy with the damp, mossy smell of new growth, and the rivers rise with every storm, making them impossible to ford.

It is hard, though, to concentrate on the scenery: the roadside is littered with the twisted remains of vehicles—both military and civilian—blown up by US-backed Contras.

Attacks on vehicles and fixed targets make life, always a struggle in this hard country, virtually impossible.

The Contras' chosen fixed targets are the resettlement camps and co-operatives housing peasant families who have moved in from their isolated farms in the hills.

Some came voluntarily, because they were afraid of the contras, most were forcibly relocated because the Sandinistas were afraid they were helping the Contras.

"If we stay out in the hills, the Sandinistas say we are Contra collaborators. If we live on the co-operatives, the Contras say we are with the Sandinistas. Either way we end up badly," complained 87-year-old Eusebio Espinoza.

The resettlement co-operatives, clusters of ramshackle tin roofed huts nestling on valley floors, have had a hard time getting started in this part of Jinotega province.

In El Cedros, burnt down four times, community leader Pablo Ramos insists that "we are not going to give in, we are always going to rebuild, we are not going to retreat for one moment." His fellow villagers, however, are clearly frightened that all their work may prove to be in vain.

Just up the road is Abisinia. The Contras who burned it down last month warned its inhabitants that "if you rebuild Abisinia 100 times, we will destroy it 100 times."

"They told us that if we worked on private farms, nothing would happen to us," recalled Alba Flores, who heard the Contra leader's speech. "But if we had anything to do with the state . . ."

El Cedro, and other communities like it, are now ringed by trenches. Every able-bodied man and many of the women do three months' militia duty each year and three self-defence patrols daily when they are on the co-operative.

AK-47s, the standard issue Soviet-built assault rifle, hang over every shoulder. Defence is the top priority. In the area around Bocay, 70 per cent of the men are in the army, the reserves, the militia or the self-defence units.

So many men handle weapons, rather than hoes, that the impact on food production has been severe. Maize, for tortillas, and black beans, are the only foodstuffs the people in this part of Nicaragua can ever be sure of seeing. Even staple rice is often in short supply.

Like other goods, from soap to sandals, rice must be trucked in from outside. And with the danger of ambush ever present on the roads, the ranks of lorry drivers prepared to come up here have thinned.

The Contras' presence in Jinotega, and their decision that any government employee is as valid a target as an armed soldier, have also curbed the Sandinistas' reach in dispensing the revolution's two undisputed benefits, health care and education.

Since 1983, says local education chief Haydee Gonzalez, the Government has had to close down the most remote 25 of its 38 schools in the Bocay region.

"We work now only where we can really get to," she explained. "We cannot provide teachers in some places any more because they were being kidnapped and killed," by the US-backed rebels.

By the same token, doctors in this area have watched helplessly as diseases such as tuberculosis, which they were beginning to control, have taken hold again in zones where clinics cannot be defended against Contra attacks.

Measles too, often a child killer, "spread like wildfire through the mountains in 1985, because where we had not been able to vaccinate, people were not protected," says Dr Maria de Solan, the top doctor in the Bocay area.

"Before the war, we went into the hills and vaccinated without danger. Now that would be suicide," she complains. Dozens of volunteer health *brigadistas* have been killed by the Contras over the past four years, she adds. "To be a *brigadista* used to be an honour. Now it is an act of heroism."

"The major goal of this war," says Dr de Solan, "is to disorganise us. And you could say that here, they are achieving that goal."

US backing gives Contra forces the weapons they say they need to defeat Managua

War without frontiers keeps army on the move

BY RICHARD EVANS

SOON after dawn the reports of automatic weapons sounded from the hillsides of northern Nicaragua. But the hills were so densely clad in jungle it was impossible to tell who was shooting at who.

I was with the strangest of armies, in a war without borders or battlelines. For a week I travelled by foot, jeep and helicopter through the maze of rivers, forests and mountains that is the heartland of the US-backed counter-revolution against Nicaragua's Sandinista Government.

The Coco River valley provides the nominal boundary separating Nicaragua from Honduras, its neighbour to the north. But Sandinista army regulars and Contra rebels clash on both sides of the Rio Coco. Thousands of Nicaraguan *campesinos* (peasants) have gone north of the river to escape the war. North or south of the Rio Coco, I heard automatic weapons fire nearly every day I was there.

It is difficult to determine just who is in control in the area. Emerging from the bush with a squad of Contras one afternoon we ran into a Honduran army border patrol. The Honduran soldiers were in their teens; they wore old US-supplied uniforms, carried beat-up looking Vietnam-era M-16 machine guns and had little spare ammunition.

By contrast, the Contras wore neat camouflage uniforms and good *jungle boots*. They were armed with brand new Kalashnikov assault rifles, hand grenades and plenty of extra ammo clips, all supplied by the US. The Honduran sergeant commanding his little group looked a little frightened.

He managed to bark out a brave but useless: "What are you men doing here? Where are you going?"

"For a walk," answered one of the Contras. "Would you like to come?" The rest laughed and we kept on walking.

Contra base camps are filled with evidence of the latest \$105m US military aid package. At Javalles, on the Coco river, rebel intelligence officers log thousands of Sandinista army radio transmissions on new Tandy personal computers. Supply tents are piled to the roof with uniforms, boots, weapons, ammunition and land mines.

"We have now got the weapons we need to beat the Sandinistas, if only aid is not cut off," supreme Contra commander Enrique Bermudez told me at Javales. "We have been waiting for a long time and we are ready to crush them."

Bermudez is a short, rather mild-looking man you might mistake for a middle manager in another world. But in the jungle he wears a 9-mm Beretta automatic pistol strapped to his hip and he knows how to use it.

Bermudez, like most of the Contra military command, is an ex-officer of Nicaragua's dreaded National Guard. The National Guard was the private army of former dictator Anastasio Somoza and enemy number one of the Sandinista revolution before it came to power in July 1979. The National Guard fought the revolution with unbridled cruelty. Bermudez, however, spent the last years of Somoza's reign in Washington as the Nicaraguan embassy's military attache.

Most of the rebels in the field are not ex-Guard. They are *campesino* teenagers who blame the Sandinistas for Nicaragua's wrecked economy.

Training this peasant army to fight a modern guerrilla war is an enormous problem for the Contras. But within the past month the rebels have downed two Sandinista MI-17 helicopters using US-supplied Redeye anti-aircraft missiles.

I accompanied a group of Contras carrying a new shipment of Redeye missiles into Nicaragua's northern Jinotega province. It was the rainy season and the mud was everywhere, ankle-deep and glutinous. The Contras were young and tough and they held up well. Honduran and Nicaraguan *campesinos* we passed on the way smiled and waved.

..."You *Norteamericanos* think we are mercenaries and really bad people," said Rafael, the young leader of our squad. "I have nothing. My wife and children are in a refugee camp."

During my last days there the Sandinistas launched a massive assault to dislodge the Contras from the mountains of Jinotega. They sent 4,000 troops up the Bocay river valley to the Rio Coco and overran some Contra camps. The Contras broke up into small groups and spread out across the rain forest.

Returning to Javales I saw the camp was nearly deserted, the supply tents empty. Enrique Bermudez got out the rum and apologised for Col O'Connor's behaviour. Bermudez tuned into a Sandinista radio station and he started to laugh. They were saying the Contras had been defeated and driven back into Honduras. But nearly everyone was still in-country and they meant to stay there.

Richard Evans recently returned from Nicaragua where he was on assignments for the BBC and the New York Daily News.

Brazil's ruling party to hold key convention

By Ivo Dawnay in Rio de Janeiro

THE BRAZILIAN Democratic Movement Party (PMDB) tomorrow begins the most crucial national convention in its 20-year history when it attempts to hammer out a common position on the key issues confronting the Congress as it drafts a new constitution.

Leaders of the party, which dominates the legislature with majorities in both chambers, will try to heal rifts between the PMDB's left and right wings. One possible outcome, however, is that the "progressive" faction will opt to split permanently from the right-leaning "democratic centre."

Such an outcome would at least resolve the apparently irreconcilable differences over the party's role in government. At the centre of the debate in the 700-delegate convention is the PMDB's formal position on the length of President Jose Sarney's term of office.

In broad terms, the progressives tend to favour a four-year term, leading to elections in November 1988. More conservative members are supporting the President's demand for five years.

Behind the issue lies more complex tensions over the course the party is taking on other constitutional and legislative policies. These stem from the PMDB's origins as a broad coalition of democratic forces, founded two years after the 1964 military coup.

Many of the so-called "autenticos"—the founding members—regard latecomers from other parties as betraying the essentially social democratic ideals of the PMDB. Some analysts argue that late-entrants from parties that supported the dictatorship now outnumber the progressives and are paying only lip service to party policy.

For example, while the left takes strong positions in support of land reform and a redistribution of wealth, much of the right favours a continuation of the status quo.

Mr Ulysses Guimaraes, the PMDB president, has struggled throughout the year to prevent a break-up. The centre-left, led by Sen Mario Covas, is, however, insisting on a vote on the presidential mandate and a reaffirmation of the party's progressive programme.

If the party opts for a four-year term, President Sarney is expected to attempt to force a split and to govern with the backing of Congress's centre-right majority.

Peru launches biggest ever anti-drugs operation

BY BARBARA DURR IN LIMA

PERU launched a 1,200-man anti-narcotics and anti-insurgent operation on Wednesday in the central Huallaga Valley, the country's largest cocoa-growing area. The government declared the area an emergency zone, suspending constitutional rights.

The US has provided three civilian helicopters to Peru for drug control.

The operation, code-named Lightening, started with a paratrooper assault on the town of Tocache, long known as a key drug centre. Police took the town after a firefight. No casualties were reported. The Peruvian air force assisted

The Ministry of the Interior said in a communique the operation was aimed at re-establishing order within the area where drug traffickers and terrorists had committed "serious delinquent acts."

This is the largest operation conducted in the region. Previous efforts were aimed largely at destroying illegal airstrips. The aim now is to hit the air traffic on the ground and in the air.

It follows guerrilla attacks last month on police stations in two Huallaga Valley towns, Uchiza and Aguaytia, both international drug trading posts.

Peru is the world's largest producer of cocoa the raw material for cocaine.

Peking commercial centre

BEIJING HUAWEI Centre, a Sino-Norwegian joint venture, is seeking a HK\$41.9 (US\$5.3m) loan for the construction of a commercial centre in Peking, Reuter reports from Hong Kong.

Scandinavian Far East, the lead manager, said the 12-year loan would be fully guaranteed by the Bank of China. Terms were not disclosed. Syndication is proceeding and signing is expected in about a week. Bergen Bank is co-lead manager.

The borrower is an equal joint venture between Beijing Huayuan Economic Development Company and Scandev of Norway.

Total investment in the Huawei Centre is HK\$51.9m, of which HK\$10m will come from equal equity participations by the two partners.

Construction oft he centre is underway. It will include office space, residential apartments, a shopping arcade and recreational facilities. Completion is expected by 1990.

Hyundai rejects dumping charge

By Robert Gibbens in Montreal

HYUNDAI, the South Korean motor group, has reacted quickly to allegations that it has been dumping vehicles in the Canadian market.

The Federal Government has launched a preliminary investigation into dumping charges by General Motor of Canada and Ford Canada, the main assemblers in Canada.

The two groups claim that imports from Hyundai are causing material injury to the Canadian vehicle industry and putting thousands of jobs at risk.

The Korean group, surprised by the government's move, denied the dumping charges and accused the two North American companies of harrassment and protectionism.

A Hyundai spokesman in Toronto said: "Rather than compete with us in the market place, they are using the courts. We are building a C\$400m assembly plant near Montreal and it is ludicrous to suggest we would jeopardise our relations with Canada by engaging in unfair trade practices."

The companies have been collecting data for six months, and now the Canadian Import Tribunal must decide within 30 days if there is a case against Hyundai.

Stet enters joint ventures

By Alan Friedman in Milan

STET, the Italian state electronics and telecommunications company controlled by IRI, the state holding company, yesterday announced an accord with Telefonica, the Spanish state telecommunications group, for a series of joint ventures.

Stet and Telefonica aim to create working groups to set up joint ventures projects and report back to Rome and Madrid later this year. Joint ventures are most likely in telephone networks, research on new technologies and the development of new services.

Litigation hits US light aircraft industry

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT, IN LONDON

THE US light aircraft industry has been hard hit by a sharp increase in product liability litigation.

Mr Edward W. Stimpson, president of General Aviation Manufacturers' Association, said: "Last year was our worst ever with less than 1,500 units (aircraft) sold and we estimate the number will be approximately 1,000 units for the year."

Deliveries during the first half of the year were down 14 per cent to 558 compared with the first half of 1986, but the value rose 60.3 per cent to \$655.8m because of increased deliveries of more expensive jet aircraft.

Manufacturers have been facing an increasing number of claims for damages as a result of accidents which have often involved aircraft which are old and have had many owners.

Insurance premiums to cover such liabilities are high and where the manufacturers have passed them on in aircraft prices, sales have slumped.

Mr Frederick Sontag, president of Unison Industries and chairman of the Gama Product Liability Committee, said claims paid for judgments, settlements and defence in court increased from \$24m in 1977 to \$210m in 1985 on about the same level of industry revenues.

These costs had grown despite general aviation's steadily improving safety record.

"In fact, 1986 represented the best year ever for general aviation safety. Yet product liability costs have continued to soar," he added.

Manufacturers, including Beech, Cessna and Piper, are pressing Congress to pass a new act that will limit product liability.

"The issue of product liability has become one of jobs, foreign trade and the competitiveness of the US," said Mr Sontag.

The General Aviation Manufacturers' Association said that of the 558 aircraft, 56 were jets, against 37 in the first half of 1986, and 120 turbo-propeller aircraft.

Single-engined piston aircraft deliveries slumped from 483 to 340, a decline of 29.6 per cent, and twin-engined piston aircraft were down from 43 to 42.

Ann Charters reports on difficulties facing a Brazilian industrial zone

Hard times hit jungle experiment

CARVED OUT of the jungle and nurtured like a hothouse flower, the Zona Franca of Manaus is a rare industrial park. Twenty years old this year, the industrial experiment was designed to bring progress to the tropical Amazon basin.

Attracted by fiscal incentives and cheap labour, Brazilian, Japanese, German, Dutch and US companies, among others, have set up assembly operations for products ranging from consumer electronics to watches to motor cycles.

All parts and components are imported tax free either from abroad or from Brazil's industrialised south 4,000km away. After a sojurn up the river or by truck to the river mouth and then by boat the parts for assembly stay briefly in the zone and make a return trip to consumer markets in southern Brazil.

Other than being a boon to air cargo and to a lesser degree surface freight, has this rarified industrial park created by presidential decree shortly after the military took over actually been worth the transplant? Mr Amazonino Mendes, the new governor of Amazonas and former mayor of Manaus, gives an emphatic yes.

Combined sales of the 390 companies installed in the free zone reached \$4.3bn in 1986. Fixed investment as of December 1986 was Cz 6.47bn (\$437m at a year-end exchange rate).

Despite the fact that the state gave up tax revenues to attract the companies, the governor claims that its economy has benefited strongly from commerce and other secondary businesses that have sprung up to supply the zone's 62,000 employees.

Surprisingly the zone employs more workers than the state government at 46,000 public servants. In the poorer states of Brazil, it is not uncommon to find the Government as the major employer.

Boom times for companies manufacturing consumer goods appear to be over. During last year's consumer buying craze when prices were frozen under the Cruzado Plan that reduced inflation briefly to zero and a joke about indiscriminate buying had consumers looking for washing machines and walking out of stores with microwaves, five 707 cargo planes a day carrying consumer products left Manaus.

Cargo space was at such a premium that companies sent representatives to the airport in the middle of the night to buy a place in line. Now it is unusual for one cargo plane a week to fill up. Factories have cut back to one shift from three and started to lay off workers, as some plants had orders drop as much as 50 per cent in the last month.

Because the free-zone companies are concentrated in small consumer durables, they are virtually a monoculture much like rubber once was. Consequently, slowdowns in the economy hit hard. Workers have few alternatives outside industry, and perishable food products are flown in, not cultivated, and few efforts to develop the area's natural resources remain.

The precarious nature of the city's 1.3m inhabitants surrounds the governor who works in an old German rubber baron's residence. Mr Medes wants to encourage agro-industries in Brazil nuts, palm oil and guarana, a local berry for soft drinks, in addition to producing foods.

As a start Brazilian national development bank funding of Cz 3bn is to capitalise a commercial fishing operation that the governor, in a new populist twist, said will put a fish on every plate, with excess production for exports. Local business executives are sceptical, given the high energy demands of freezing for export in a region already deficient in electricity.

Exports are severely hampered by a shortage of vessels sailing half way up the Amazon river to Manaus, inadequate dock facilities and the prohibitively high freight rates.

A local businessman complained that freight charges from South Korea to Los Angeles were less than shipping a shorter distance from Manaus to Miami. Despite low ex-factory prices that are among the world's lowest, freight costs have nearly defeated local companies' recourses to export markets to compensate for sagging domestic sales. Exports totalled only \$60m last year.

A breed of young businessmen, some third generation Amazonenses, and other professional managers from the south of Brazil seeking more responsibility and higher salaries that hardship posts offer, seem intent on making the newfound progress, albeit artificially induced, permanent.

Fiscal incentives for the zone were just extended another ten years, giving companies another lease on life. There is no question that without the incentives, the zone would wither.

Japan to ease rules on big computers

By Yoko Shibata in Tokyo

THE Japanese Government decided yesterday to implement new procurement procedures for supercomputers in order to make it easier for foreign firms to compete for sales to public and quasi-public agencies, a Foreign Ministry official said.

The procedures will be implemented on August 1.

Under the new arrangement, government agencies and ministries muct publish a notice in the official gazette when they plan to buy a supercomputer tries must publish a notice in information to potential suppliers.

Government purchasers will also be required to announce the results of the bids and explain to unsuccessful bidders upon request the reason for their failure.

The adoption of open bidding for lease contracts will precede the introduction of the system planned to take effect in January 1988 by the General Agreement on Tariffs and Trade (Gatt).

The procedures go beyond the Gatt requirement in that they require the announcements to be made at both the market research stage and again when a decision to buy has been made.

The procedures will apply to governmental bodies including state universities and the Government will also instruct some 95 semi-government agencies to comply, the Foreign Ministry official said.

The Japanese Government officials said the US government has indicated acceptance of the guidelines, but it will continue to discuss the practice of Japanese supercomputer makers offering special discounts on sales to research institutions.

● Japanese importers are becoming increasingly concerned that China may stop trade talks on exports of rare earth, including yttrium, in an attempt to increase prices, Reuter reports from Tokyo.

Yttrium, one of the elements in rare earth, is used in the development of superconductors.

US 'not willing to reduce farm liberalisation plans'

BY ANDREW MARSHALL

THE US is not prepared to see its ambitious plan for liberalisation in agricultural trade significantly reduced in negotiation, Mr Clayton Yuetter, US Trade Representative, said yesterday.

The US plan, presented at the Gatt on July 6, envisages the complete elimination within 10 years of all export subsidies and import barriers to trade in farm products.

The European Community has been distinctly lukewarm about the proposals, calling them "very ambitious" and stressing the practical difficulties in such a radical shift in policy.

EC politicians have preferred to stick with the more generally-worded commitment to trade liberalisation contained in the communique of the Venice Summit.

There has been some scepticism about how deep US commitment runs and a belief that the US proposals represent a starting position which could be whittled down in negotiation.

Mr Yuetter called this view "unfortunate." He emphasised that, though he recognised the difficulties such a process represented to European politicians and was prepared to be flexible, he considered the complete liberalisation of agricultural trade to be both possible and necessary.

"We don't just want a quarter of the loaf, or a half, we want the whole loaf," Mr Yeutter said.

"If we don't do it now, in 10 years it will be even more difficult," he said.

Japanese-Thai group to make truck engines

Nissan Motor, Mitsubishi Motors and five Thai partners have formed a joint venture to make diesel and petrol engines, according to one of the Thai partners, Siam Motors, Reuter reports from Bangkok.

Siam Motors said the venture called for an estimated \$43m (£26.7m) investment over five years and would produce small and medium-size pick-up truck engines.

A factory in Samutprakarn would start making about 26,000 engines a year from late 1989, with annual output rising to 33,300 units. Local content of the engines would reach 80 per cent in the fifth year of production.

Nissan and Mitsubishi hold stakes of 35 per cent and 5 per cent respectively.

Ankara cancels airports deal with Thomson

BY DAVID BARCHARD IN ANKARA

THOMSON-CSF of France was yesterday said to be "extremely angry" after a Turkish government decision to cancel the award of a contract to supply a DM 83.5m (£28m) civil radar system to DHMI, the Turkish airports authority.

French officials had been expecting that the contract might be signed today. A memorandum about the contract was signed on July 3 by a representative of Thomson and the director-general of DHMI, Mr Ozer Tamar.

The Turkish Government has changed its mind several times over the deal. At one stage the French were expecting that the contract would be signed on July 3, during the visit to Ankara of the French Foreign Minister, Mr Michel Noir

DHMI officials yesterday gave no reason for the cancellation and appeared uncertain as to whether the contract will be put up for tender again.

A French official said he thought that Thomson were in "no mood" to bid again if the contract was retendered.

Officials gave no reason why the contract had been revoked. It is widely believed in Ankara that it stems from Turkish anger at the French Government's response to criticisms of Turkey by pro-Armenian groups in the European Parliament last month.

There are fears that the breaking of this contract could revive a long-running dispute between the two countries at a time when Turkey needs France's support for its application to join the European Community.

Tokyo renews Australian gas contract

By Chris Sherwell in Sydney

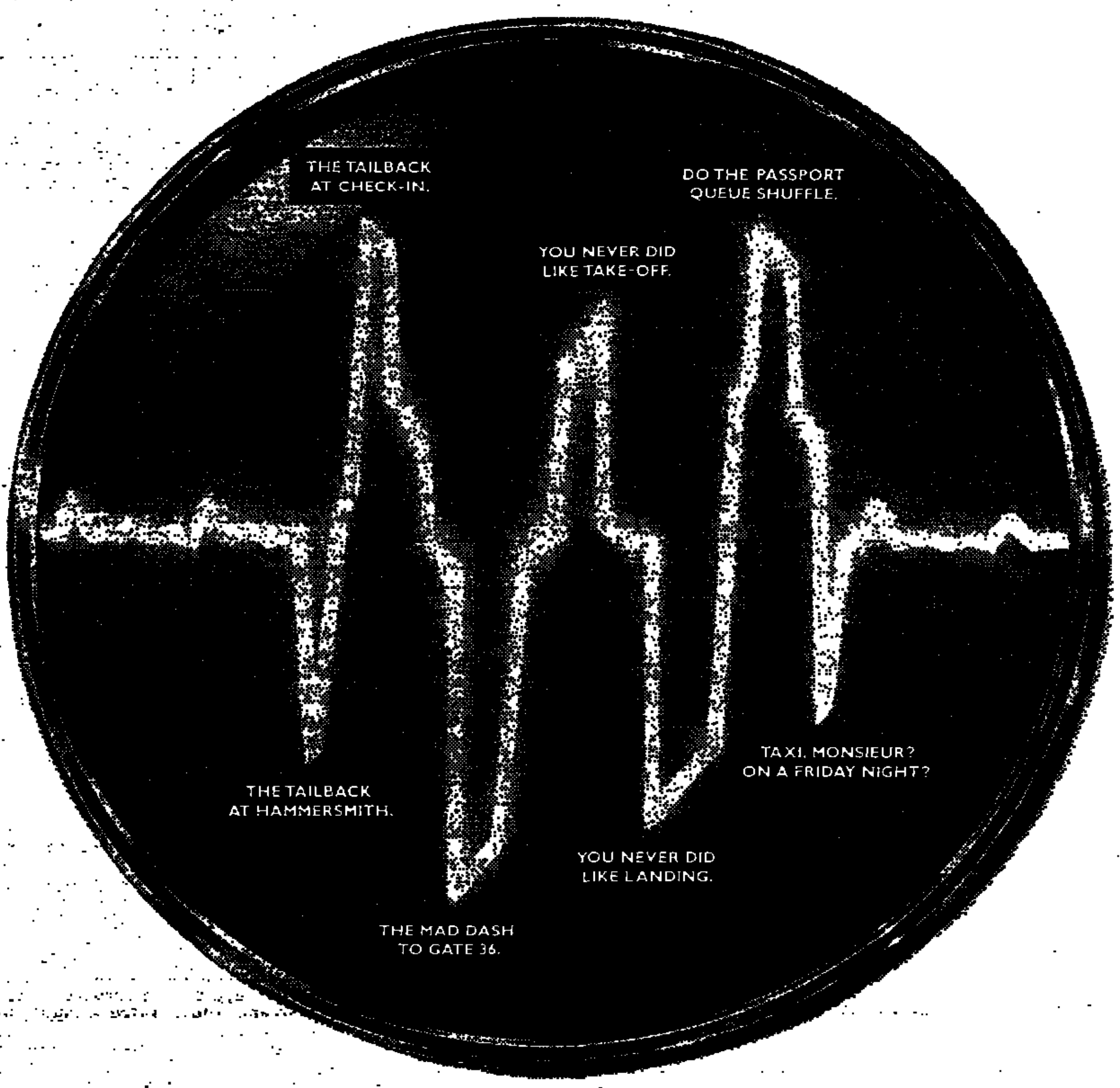
A LUCRATIVE four-year contract under which Australia sells liquid petroleum gas (LPG) to Japan has been renewed for a further three years in a deal worth more than A\$100m.

The contract is between partners in the Cooper Basin project, located in central Australia, and Idemitsu Kosan of Japan. The current arrangement was due to expire in the middle of next year.

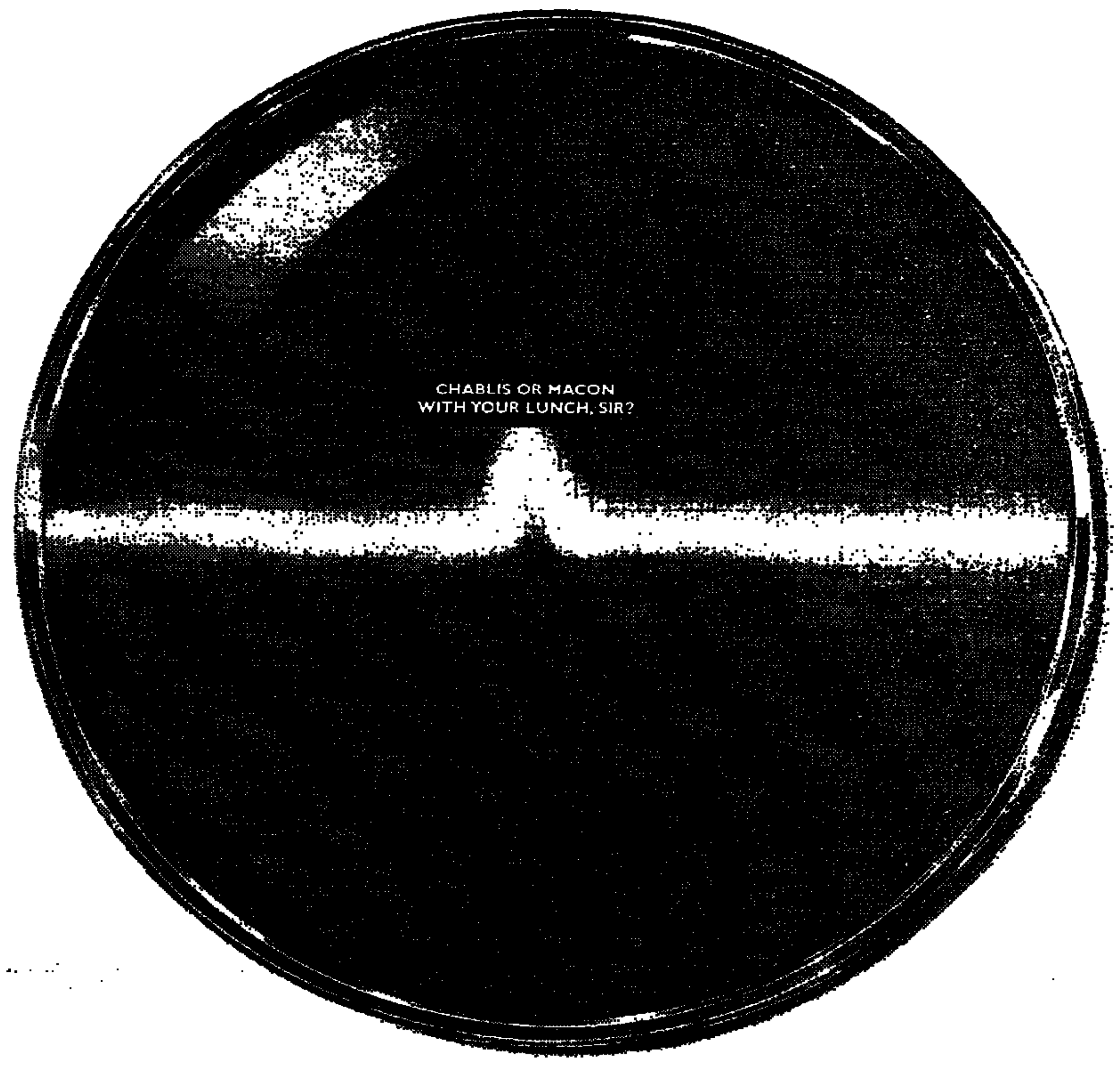
An announcement yesterday from Santos, the Adelaide-based operator for the project, said the renewed contract was for 180,000 tons of LPG (a combination of propane and butane) each year—about the same quantity as at present.

From the heart of London to the heart of Paris.

Without getting to the heart of the businessman.



THE MAN ON THE PLANE.



THE MAN ON THE TRAIN.

On the left, the journey to Paris as it can so often seem today.

On the right, the same trip as it should look with the opening of the Channel Tunnel in 1993.

You may detect one or two points of difference.

Note, for instance, how the man on the train doesn't have to fight his way down the M4 to get to Heathrow Airport.

Or dash along endless polished corridors to Gate 36 (or was it 34?).

Or even play hunt-the-suitcase on a luggage carousel along with two hundred other lucky contestants.

In fact, if you take the train, all you'll need to do is to turn up at Waterloo.

There, passport in hand, you'll step onto one of the high-speed expresses that leave at least hourly right through the day.

Once aboard, you'll find proceedings are equally unflustered.

You'll be able to doze at full stretch in your individually adjustable armchair seat.

Admire the Kentish landscape as it skims elegantly past your window.

Or wander up the carriage and make a direct-dial telephone call to almost anywhere in the world.

And should you feel like toying with a little lunch, why not repair to the dining car?

Even at 125 mph or more, the fussiest gourmet won't be able to describe it as fast food.

Just as you're getting used to this rather splendid way of life, you'll find yourself pulling into the Gare du Nord.

A mere 3 hours or so out of Waterloo.

You'll be relaxed. Refreshed. And right in the very heart of Paris.

An interesting thought for those of you now reading this on the flight to Charles de Gaulle.

Assuming you've managed to open your papers wide enough to read anything at all.

EURO TUNNEL

A breakthrough for Britain.

Details of projected services correct at time of going to press.

FT LAW REPORTS

Litigant cannot inspect cheques before hearing

WILLIAMS v BARCLAYS BANK PLC

Court of Appeal (Sir John Donaldson, Master of the Rolls, Lord Justice Parker and Sir George Waller): July 10 1987.

THE COURT'S power to order that a party to proceedings should be at liberty, before the hearing, to inspect and copy entries in a bank's books for the purpose of producing evidence, does not extend to inspection and copying of unsorted bundles of cheques and paying-in slips.

The Court of Appeal so held when dismissing an appeal by Mrs Pamela Wiliams from an order by Her Honour Judge Holt, in the Blackpool County Court. The judge had varied an earlier order so as to exclude that part of it which entitled Mrs Williams and her solicitors to inspect and copy cheques and paying-in slips held by Barclays Bank plc.

Section 3 of the Banking Act 1879 provides that "... a copy of any entry in a banker's book shall in all legal proceedings be received as *prima facie* evidence of such entry, and of the matters ... therein recorded."

Section 7: "On the application of any party to a legal proceeding a court or judge may order that such party be at liberty to inspect and take copies of any entries in a banker's book for any of the purposes of such proceedings".

Section 9 (as amended by the Banking Act 1979): "(2) ... 'bankers' books' include ledgers daybooks, cashbooks, account books, and other records used in the ordinary business of the bank, whether written ... or ... on microfilm, magnetic tape ... retrieval mechanism".

SIR JOHN DONALDSON MR said that Mrs Williams had sought disclosure by the bank of copies of paying-in slips and cheques for use as evidence in two different proceedings.

In the first, in which she petitioned for judicial separation from her husband, she also sought ancillary financial orders. That involved ascertaining her husband's income and capital resources. He was loath to assist and had ignored all orders for discovery.

Mrs Williams's case was that her husband had secret bank and building society accounts. She alleged he had used his position as chairman or director of an unincorporated and unregistered "charitable" organisation to conceal the extent of his own wealth by mixing his money with that of the "charity" in its accounts with the Orpington branch of Barclays Bank.

In the second proceedings the trustees of the "charity" were seeking an order against both Mr and Mrs Williams for possession of the matrimonial home, alleging it was owned by the "charity." Mrs Williams's defence was that although it was bought with money drawn from the account of that organisation, the money used was her husband's, and he was the beneficial owner.

If justice was to be done, Mrs Williams had to be able to find out what payments had been made into and out of the charitable accounts and her husband's accounts.

She could obtain a *subpoena duces tecum* addressed to the appropriate officer of the bank requiring him to attend at the hearing with all the documentation.

That would lead to adjournments in both proceedings in order that the documents could be studied and enquiries made. If, on the other hand, Mrs Williams could have the information in advance of the hearings, the costs of an adjournment would be avoided.

With those considerations in mind, Mrs Williams applied *ex parte* to the Blackpool County Court and obtained an order requiring the bank to allow her to inspect and take copies of "all entries in the books" of Barclays Bank relating to the accounts of Mr Williams and the "charity."

On March 10 1987 an extended order was made that she should be at liberty to inspect and take copies of all entries in the records and "in particular ... to inspect and take copies of (1) all paid cheques ... (2) all records of payment into the said accounts, including ... paying-in slips ..."

The bank appealed and Judge Holt substituted an order that Mrs Williams be at liberty "to inspect and take copies of all entries" in the Barclays records relating to the accounts.

Mrs Williams now appealed seeking restoration of the order of March 10.

Section 3 of the Bankers' Books Evidence Act 1879 provided that a copy of "any entry in a banker's book" was *prima facie* evidence of such entry. In 1979, Parliament recognised that banks had replaced "books" with more sophisticated forms of "entry" and it amended the 1879 Act by substituting a new definition of "banker's books" to include ledgers, books and other records whether written or on microfilm, magnetic tape or other retrieval system.

However, parliament did not amend section 3 of the 1879 Act, which continued to refer to "a copy of an entry in a banker's book."

The parliamentary intention, therefore, was that section 3 should read ... "a copy of any entry in a ledger, ... account book or other record ... whether ... written ... or ... on microfilm, magnetic tape ... shall in all legal proceedings be received as *prima facie* evidence of such entry ..."

Barclays cheques were collected, presented and paid by inter-bank and inter-branch credits and debits, which identified the cheques and accounts by number, but did not identify the payee by name.

The cheque was returned to the paying branch and, unless the customer asked for it, was retained by that branch.

Cheques and paying-in slips retained by branches were not sorted in any way, all those received on a particular day being bundled up together in any order. A day's bundle could contain 2,000 to 2,500 items. They were only referred to if a query arose, and in that event someone had to sort through the whole bundle.

Mr Ryder, for Mrs Williams, submitted that the bundles of cheques and paying-in slips constituted banker's books within the modern definition and that adding each cheque or paying-in slip to the bundle constituted making an entry to those books.

One could accept that the cheques constituted part of the bank's records, but not that adding an individual cheque or paying-in slip could be regarded as making an "entry" in those records.

"Other records" had to be construed *ejusdem generis* with "ledgers, day books, cash books and account books," and unsorted bundles of cheques and paying-in slips were not "other records" within the meaning of the Act.

For those reasons, Mrs Williams was not entitled to the extended order sought. This was held with regret because in a proper case, which this seemed to be, it should be possible to obtain disclosure of cheques and paying-in slips before the hearing. It was hoped that this could be looked at by the relevant rules committee. The appeal was dismissed.

Lord Justice Parker and Sir George Waller agreed.

For Mrs Williams: Timothy Ryder (Wren Hilton Apfel Ashcroft Whiteside & Co, Lytham St Annes)

For the bank: John Jarvis (Durrant Piesse)

By Rachel Davies
Barrister

Analysis of bank advances and acceptances

to UK residents by reporting institutions in the UK at May 31 1987 (Table 5, Bank of England Quarterly Bulletin)#

£m

		Total to UK residents	of which in sterling	Agriculture, forestry and fishing	ENERGY & WATER SUPPLY: Oil and extraction of natural gas	Other energy industries	Water supply	MANUFACTURING INDUSTRY: Total	Extraction of minerals and ores	Metal manufacturing	Mineral products
All banks (amounts outstanding) (sterling and other currencies											
Loans and advances	1987 End-Feb	197,365		5,828	2,822	861	567	23,827	508	1,003	929
	End-May	213,574		5,963	3,863	843	534	24,725	636	964	770
Acceptances	1987 End-Feb	15,226		127	278	129	15	6,336	226	185	129
	End-May	11,455		82	447	94	1	4,135	175	128	119
Total	1987 End-Feb	212,591		5,956	3,101	990	581	30,164	734	1,188	1,058
	End-May	225,030		6,046	4,311	937	534	28,860	811	1,092	888
of which in sterling	1987 End-Feb	165,599		5,923	1,315	359	85	24,609	529	874	567
	End-May	172,615		5,998	1,615	378	62	23,143	513	836	557
Changes in total lending in three months ended:											
In sterling	1987 End-Feb†	+8,381		−125	+356	−42	+29	+1,320	+84	+131	−32
	End-May*	+7,016		+75	+300	+19	−23	−1,466	−16	−38	−10
In other currencies‖	1987 End-Feb†	+4,200		−5	+134	−14	−22	−387	+16	−28	+48
	End-May*	+7,761		+16	+897	−42	+1	+451	+108	−48	−136
Group detail (total outstanding) (sterling and other currencies)											
Retail banks	1987 End-Feb	100,982	94,068	5,620	738	153	28	13,305	270	600	400
	End-May	106,412	99,620	5,715	772	132	13	15,656	288	532	367

MANUFACTURING INDUSTRY, continued		Chemical industry	Mechanical engineering	Electrical and electronic engineering	Motor vehicles	Other transport equipment‡	Other engineering & metal goods	Food, drink and tobacco	Textiles, leather, clothing and footwear	Other manufacturing
All banks (amounts outstanding) (sterling and other currencies)										
Loans and advances	1987 End-Feb	1,564	1,882	2,808	620	1,189	1,694	4,387	1,606	5,437
	End-May	1,798	1,970	2,782	753	1,330	1,632	4,768	1,780	5,541
Acceptances	1987 End-Feb	517	264	723	1,164	167	207	1,879	212	862
	End-May	361	188	549	487	59	168	1,112	186	614
Total	1987 End-Feb	2,082	2,146	3,531	1,783	1,357	1,901	6,266	1,819	6,299
	End-May	2,159	2,158	3,331	1,240	1,389	1,800	5,880	1,967	6,155
of which in sterling	1987 End-Feb	1,570	1,839	2,839	1,702	1,180	1,575	5,324	1,599	5,019
	End-May	1,510	1,848	2,612	1,075	1,242	1,559	4,885	1,757	4,748
Changes in total lending in three months ended:										
In sterling	1987 End-Feb	+95	−22	+90	+35	−96	+72	+429	+161	+422
	End-May	−60	+9	−218	−627	+63	−16	−439	+158	−271
In other currencies‖	1987 End-Feb	−92	+36	−57	+17	−61	−124	−79	+10	−60
	End-May	+163	+18	+51	+88	−22	−69	+96	+18	+180
Group detail (total outstanding) (sterling and other currencies)										
Retail banks	1987 End-Feb	995	1,319	1,514	672	643	1,256	2,955	1,138	3,245
	End-May	927	1,335	1,741	517	765	1,180	2,885	1,259	3,240

		Construction	GARAGES, DISTRIBUTION, HOTELS & CATERING: Total	Retail motor trades	Other retail distribution	Wholesale distribution	Hotels and catering	TRANSPORT & COMMUNICATNS: Air transport	Other transport	Postal services and telecommunications
All banks (amounts outstanding) (sterling and other currencies)										
Loans and advances	1987 End-Feb	6,080	21,756	2,460	6,149	8,953	4,197	454	2,944	268
	End-May	6,388	23,148	2,602	6,528	8,958	5,060	490	3,188	283
Acceptances	1987 End-Feb	216	2,891	139	1,110	1,537	105	6	47	22
	End-May	215	2,539	214	922	1,271	132	5	38	28
Total	1987 End-Feb	6,296	24,649	2,600	7,259	10,490	4,302	460	2,992	290
	End-May	6,603	25,686	2,815	7,450	10,229	5,192	495	3,226	311
of which in sterling	1987 End-Feb	5,828	19,280	2,450	6,933	5,910	3,987	257	2,131	189
	End-May	6,063	19,671	2,677	7,076	5,734	4,184	311	2,298	217
Changes in total lending in three months ended:										
In sterling	1987 End-Feb	+575	+798	+110	+97	+265	+236	+13	−21	+7
	7 End-May	+235	+391	+227	+142	−176	+197	+54	+167	+48
In other currencies‖	1987 End-Feb	+74	−51	+12	−7	−73	+17	+2	−41	−12
	End-May	+95	+903	−5	+64	+137	+707	−9	+110	−21
Group detail (total outstanding) (sterling and other currencies)										
Retail banks	1987 End-Feb	4,477	12,947	1,588	5,053	3,206	3,040	152	1,387	108
	End-May	4,711	13,531	1,754	5,094	3,201	3,482	188	1,572	122

		FINANCIAL: Total	Building societies¶	Investment and unit trusts	Insurance and pension funds	Leasing companies	Other financial	Securities dealers, stockbrokers, jobbers§	BUSINESS & OTHER SERVICES: Total	Central and local government services	Property companies	Hiring of movables	Other services	PERSONS: House purchase	Other
All banks (amounts outstanding) (sterling and other currencies)															
Loans and advances	1987 End-Feb	56,260	3,767	4,284	3,199	7,315	23,351	14,345	25,513	1,289	9,968	931	12,325	26,489	21,888
	End-May	62,845	4,002	5,387	3,778	8,355	24,583	16,740	27,454	1,409	10,849	978	14,218	28,593	25,355
Acceptances	1987 End-Feb	4,010	—	78	69	1,026	2,750	87	949	37	8	70	834	—	—
	End-May	3,254	—	94	55	808	2,223	74	598	13	31	45	504	—	—
Total	1987 End-Feb	60,270	3,767	4,362	3,268	8,341	26,101	14,431	26,463	1,326	9,977	1,001	14,159	26,489	21,888
	End-May	66,099	4,002	5,481	3,833	9,163	26,806	16,814	28,052	1,422	10,880	1,023	14,722	28,593	25,355
of which in sterling	1987 End-Feb	32,590	3,765	1,782	1,898	7,843	13,902	3,460	24,090	1,044	9,177	939	12,858	24,467	21,723
	End-May	34,780	3,930	1,834	2,145	8,600	14,155	4,066	25,890	1,180	10,106	979	13,625	28,574	25,046
Changes in total lending in three months ended:															
In sterling	1987 End-Feb	+2,329	+410	+83	+53	+421	+889	+672	+1,265	+41	+497	+84	+644	+1,197	+848
	End-May	+2,220	+215	+52	+337	+757	+253	+606	+1,890	+136	+929	+20	+805	+2,107	+1,323
In other currencies‖	1987 End-Feb	+3,974	+2	+701	+386	+149	+971	+1,765	+505	−78	+185	+1	+392	+3	+19
	End-May	+4,951	+19	+1,192	+298	+89	+1,044	+2,309	+198	−26	+12	+5	+207	−1	+51
Group detail (total outstanding) (sterling and other currencies)															
Retail banks	1987 End-Feb	9,751	561	1,501	1,306	2,345	2,567	1,532	13,410	324	4,519	372	8,195	18,339	17,589
	End-May	12,053	576	2,166	1,648	2,644	3,060	2,017	14,166	469	4,983	394	8,329	19,732	18,655

* Changes in the reporting population to May accounted for some £9m (net) of the increase in total sterling; net lending in other currencies was unaffected.
† Changes in the reporting population to February accounted for some £173m (net) of the increase in total sterling lending; net lending in other currencies was unaffected
‡ Includes lending under the DTI special scheme for domestic shipbuilding.
§ From end-November 1986 lending to securities dealers, stockbrokers and stockjobbers (including money placed with Stock Exchange money brokers and gilt-edged market makers) is shown separately within the financial sector. Such lending was previously included in the other services column of business and other services.
¶ Includes sterling time deposits placed with, and holdings of sterling certificates of deposit issued by, building societies.
‖ Adjusted for exchange rate effects.
Comprises loans, advances and acceptances. Loans and advances include lending under the DTI special scheme for domestic shipbuilding, secured money placed with Stock Exchange money brokers and gilt-edged market makers and sterling time deposits placed with, and holdings of sterling certificates of deposit issued by, building societies.

UK NEWS

Disquiet in parliament over BA merger plan

BY PETER RIDDELL, POLITICAL EDITOR

THE GOVERNMENT yesterday adopted a non committal attitude to the proposed British Airways/British Caledonian (BCal) merger in face of strong opposition calls for a reference to the Monopolies and Mergers Commission.

During emergency questions in the House of Commons and the Lords, considerable concern was expressed by Labour and Alliance leaders in view of the implications for domestic airline competition and consumer interests. Some disquiet on the same point was expressed by a number of Tory MPs.

However, both Lord Young, Trade and Industry Secretary, and Mr Kenneth Clarke, his deputy in the Commons, declined to make any comment until they had received a report from Sir Gordon Borrie, the director-general of fair trading, on whether or not the deal should be referred to the commission.

The two Ministers said they hoped this report would come "as soon as reasonably practicable", though Lord Young admitted that

Kenneth Clarke

this was not expected until after parliament rose for its summer recess at the end of next week.

Mr Clarke told MPs that the Government had known about the merger for about a week.

For the opposition, Mr Tony Blair, Labour's new trade spokesman, was loudly cheered when he argued that the deal "unquestionably" satisfied the criteria for reference. He argued that the Government preferred private profit over consumer rights.

Mr Blair and Mr David Steel, the Liberal leader, who also favoured a reference, pointed out that as recently as 1984 a Government White Paper (policy document) had supported a competitive multi-airline industry.

Views were divided on the Conservative side. Mr Nicholas Soames, who represents Crawley, the constituency which includes Gatwick airport and many employees of both companies, said a decision to refer the bid would be a mistake. He was supported by some other MPs stressing the need for a strong British international airline.

However, Mr Anthony Steen questioned whether the deal might be the "death knell" for independent airlines, and Mr John Wilkinson highlighted the need for competition on domestic routes otherwise carriers would soon be gobbled up.

Jobless level falls to lowest in 3½ years

By Janet Bush

UNEMPLOYMENT in Britain continued its downward trend in June with the total number of jobless people falling in all regions while job vacancies stood at the highest level on record, according to figures released yesterday by the Employment Department.

The Government's seasonally adjusted total for those eligible for benefit, excluding school-leavers, fell 27,000 in June to 2.925m, the lowest level since December, 1983.

The seasonally adjusted total has now declined for 12 consecutive months and the 12-monthly fall of 287,000 is the largest on record, according to the Department.

Mr Norman Fowler, Employment Secretary, hailed yesterday's figures as evidence of the continuing success of the Government's economic policy. News on wages was less sanguine, however, with signs that average earnings growth could now be set on an upward trend.

Mr Nigel Lawson, the Chancellor of the Exchequer, gave a warning in a speech yesterday that the scope for still greater reductions in unemployment would inevitably be limited as long as average earnings continued to rise at three times the rate needed to maintain living standards.

Yesterday's figures showed the underlying rate of average earnings in the year to May had remained at the per cent rate recorded in the year to April.

The Department said the higher rate of average earnings growth in April and May, which has contributed to renewed worries in British financial markets about a build-up of inflationary pressures, had been due partly to substantial overtime working, reflecting fast economic growth.

Pits face disruption by miners

BY CHARLES LEADBEATER, LABOUR STAFF

BRITISH COAL faces its most serious industrial dispute since the end of the year-long strike over pit closures in 1985.

Leaders of the National Union of Mineworkers (NUM) yesterday called a national ballot on industrial action – stopping short of a strike – over the state-owned corporation's revised disciplinary code.

The decision came as 16 South Yorkshire pits employing 14,000 miners came to a halt in dispute over the suspension of five men at Frickley Colliery in Worksop.

Crucial meetings today and over the weekend linked to the dismissal of a branch official at Stillingfleet Colliery in the Selby complex, will decide whether North Yorkshire's 16 pits will next week join the dispute.

While the threat of widespread industrial action centres on the disciplinary code, it could have a much wider significance.

Anger over the code is mounting just as the corporation is seeking the union's agreement on wide-ranging changes in working practices, including the introduction of flexible shifts to allow six-day coal production.

Mr Arthur Scargill, the NUM president, was largely isolated at the union's annual conference last week in his outright opposition to the corportation's plans for flexibility.

The industrial action ballot, which will be held between July 20 and August 21, was called for by a unanimous decision at the union's annual conference last week. The ballot will be phased over five weeks to accommodate annual holidays in a number of areas.

The union's executive is also to seek national talks with British Coal over the code.

Revenue surge lifts hopes on borrowing

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

THE GOVERNMENT'S finances showed a healthy surplus last month, raising expectations that it may undershoot its borrowing target for the second consecutive year and have ample scope for tax cuts in next spring's budget.

Figures released by the Treasury yesterday show that the public sector made a net repayment of £800m in June, reducing the cumulative public-sector borrowing requirement for the first three months of the financial year to just £600m.

The Government has set a PSBR target for the whole year of £4bn, and the bulk of this would be traditionally concentrated in the early months. During the first three months of 1986/87 the public sector borrowed £2.2bn, while the outturn for the full year was £3.3bn.

The improved performance so far this year is partly explained by a concentration of receipts from privatisation in the first few months. In June the Government received £1.7bn from the second tranche of payment for British Gas. The civil-service dispute may also have resulted in some small distortion because of delays in repayments of value added tax.

Despite those special factors the figures suggest that revenues are outstripping the Treasury's projections, while public spending remains relatively subdued.

The official view in Whitehall yesterday was that there are too many uncertainties for the Treasury to revise its target at such an early stage in the financial year. There is a tacit admission, however, that the signs are that the PSBR will undershoot.

Apart from the overall buoyancy of the economy, which tends to raise receipts from income tax, corporation tax and VAT, the Government is likely to benefit from an overshoot of more than a £1bn in receipts from the privatisation programme. The recent rise in the oil price, if sustained, could also add up to £1bn to revenues.

Thatcher stands firm against VAT moves

BY TOM LYNCH

THE GOVERNMENT has not moved from the position it took during the general election campaign that it would resist European Commission (EC) pressure to levy value added tax on items such as food, fuel and children's clothing, Mrs Margaret Thatcher, Prime Minister, told the House of Commons yesterday.

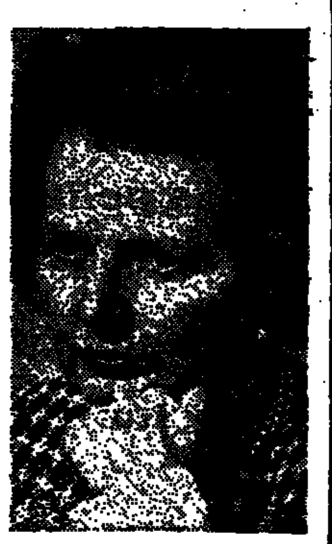
However, she was careful not to be pushed by Labour MPs into closing off options for changes in the VAT regime in future budgets.

She was challenged by Mr Neil Kinnock, leader of the Opposition, over remarks by Mr Peter Brooke, the Paymaster General, on BBC radio yesterday concerning proposals by Lord Cockfield, the EC Commissioner, to harmonise VAT rules throughout the Community.

Mr Brooke said the Prime Minister had made it clear during the general election campaign that proposals to levy VAT on food, fuel or children's clothes and shoes would be unacceptable if they came from Lord Cockfield or the Commission. The UK would veto the proposals.

Mrs Thatcher said it was Mr Brooke's "precise purpose" to confirm her election campaign position. "I am well aware of the words that he said." However, she said, "it is not part of my duty to constrain the Chancellor of the Exchequer in his annual budget."

Mr Kinnock said the Prime Minister had been "anything but clear" about her intentions on VAT during the election campaign. He said she had been less specific on children's



Margaret Thatcher

clothes and shoes than on food and fuel and said these items were of considerable importance to many people.

The Prime Minister accused Mr Kinnock of "raising scares" on a day when he should be welcoming a fall in the unemployment figures. Tax changes had to be approved by all member states of the EC, she said.

"Not only would we vote against what Lord Cockfield is proposing, but a number of our European partners would as well. The possibility of its getting through is just negligible."

UK ECONOMIC INDICATORS

ECONOMIC ACTIVITY—Indices of industrial production, manufacturing output (1980=100); engineering orders (1980=100); retail sales volume (1980=100); retail sales value (1980=100); registered unemployment (excluding school leavers) and unfilled vacancies (000s). All seasonally adjusted.

	Indl. prod.	Mfg. output	Eng. order	Retail vol.	Retail value*	Unemployed	Vacs.
1986							
1st qtr.	108.1	102.5	106	119.2	146.0	3,171	166.5
2nd qtr.	108.8	104.0	105	121.3	154.0	3,203	175.6
3rd qtr.	110.0	105.0	108	123.7	158.7	3,202	200.2
4th qtr.	110.9	107.1	112	126.5	194.3	3,141	213.0
October	111.2	106.3	106	125.0	168.5	3,160	213.8
November	111.1	107.6	111	127.8	183.9	3,145	215.2
December	110.5	107.4	115	126.7	224.9	3,119	210.0
1987							
1st qtr.	112.3	107.4	106	125.4	157.0	3,073	210.4
January	111.2	106.2	114	123.5	158.4	3,114	210.5
February	112.7	108.2	108	127.0	154.5	3,066	207.1
March	112.8	107.9	102	125.5	157.8	3,040	210.6
April	112.0	108.0		130.0	168.0	3,018	213.9
May	113.3	108.1		125.4	161.3	2,954	231.2

OUTPUT—By market sector; consumer goods, investment goods, intermediate goods (materials and fuels); engineering output, metal manufacture, textiles, leather and clothing (1980=100); housing starts (000s, monthly average).

	Cnsmer. goods	Invest. goods	Intmd. goods	Eng. output	Metal mnfg.	Textile etc.	Housg. starts*
1985							
4th qtr.	103.4	102.7	112.5	103.0	112.2	102.9	15.6
1986							
1st qtr.	103.9	101.4	115.0	101.5	109.3	103.1	14.2
2nd qtr.	105.2	101.0	115.9	102.5	110.0	104.1	19.3
3rd qtr.	106.5	101.0	117.5	103.1	109.0	103.1	18.9
4th qtr.	108.2	102.4	116.1	104.6	115.4	104.5	15.3
October	107.6	102.4	117.1	104.0	113.0	105.0	19.3
November	108.8	102.3	116.3	105.0	116.0	105.0	15.9
December	108.2	102.4	114.9	105.0	118.0	103.0	10.7
1987							
1st qtr.	107.5	103.7	118.4	105.7	115.1	104.8	17.1
January	107.1	102.9	117.1	105.0	107.0	105.0	12.7
February	108.0	103.9	119.0	106.0	122.0	105.0	18.2
March	107.4	104.4	119.2	106.0	117.0	104.0	20.3
April	107.5	104.3	117.6	106.0	117.0	105.0	19.3
May	108.0	104.9	119.2	107.0	125.0	105.0	16.4

EXTERNAL TRADE—Indices of export and import volume (1980=100); visible balance; current balance (£m); oil balance (£m); terms of trade (1980=100); official reserves.

	Export volume	Import volume	Visible balance	Current balance	Oil balance	Terms trade	Reserve US$bn*
1986							
1st qtr.	117.5	124.9	−1,227	+882	+1,889	101.0	18.75
2nd qtr.	121.9	128.8	−1,551	−94	+772	102.6	19.29
3rd qtr.	122.6	133.5	−2,872	−931	+646	103.1	20.14
4th qtr.	130.5	142.4	−2,802	−750	+848	100.8	21.97
October	127.0	139.0	−715	−100	+226	101.5	21.90
November	132.8	146.7	−1,000	−384	+354	100.9	22.01
December	131.6	142.9	−887	−272	+266	100.1	21.92
1987							
1st qtr.	131.6	133.2	−1,136	+665	+1,164	100.5	22.75
January	124.6	131.4	−517	+83	+383	100.2	21.95
February	138.4	138.0	−202	+398	+328	100.4	22.26
March	126.9	130.2	−417	+183	+454	100.8	27.04
April	130.8	137.1	−804	−96	+419	102.4	29.31
May							34.68
June							34.36

FINANCIAL—Money supply M0, M1 and M3 (three months' growth at annual rate), bank sterling lending to private sector; building societies' net inflow; HP†, new credit; all seasonally adjusted. Clearing Bank base rate (end period).

	M0 %	M1 %	M3 %	Bank lending £m	BS inflow £m	HP lending† £m	Base rate %
1986							
1st qtr.	4.1	21.4	19.3	+6,303	2,230	7,375	11.50
2nd qtr.	3.1	25.9	27.3	+6,455	1,433	7,739	10.00
3rd qtr.	5.9	30.3	15.4	+6,996	168	8,223	10.00
4th qtr.	7.6	15.3	14.1	+10,531	2,814	8,178	11.00
October	6.3	19.1	14.5	+3,488	1,851	2,759	11.00
November	6.4	25.4	19.0	+3,847	160	2,635	11.00
December	10.1	0.6	9.1	+3,196	788	2,784	11.00
1987							
1st qtr.	1.2	20.6	20.2	+6,663	1,475	8,881	10.00
January	7.7	18.1	13.5	+1,698	458	2,895	11.00
February	0.1	10.9	17.8	+2,879	472	2,949	11.00
March	−3.8	32.8	29.4	+2,086	547	3,237	10.00
April	0.1	20.7	32.6	+2,004	727	3,060	9.50
May	5.5	37.2	32.7	+2,748	521	3,043	9.00
June							9.00

INFLATION—Indices of earnings (Jan 1980=100); basic materials and fuels, wholesale prices of manufactured products (1980=100); retail prices and food prices (Jan 1987=100); Reuters commodity index (Sept 1931=100); trade weighted value of sterling (1975=100).

	Earnings*	Basic matls.*	Whsale. mnfg.*	RPI*	Foods*	Reuters* cmdty.	Sterling
1986							
1st qtr.	179.1	132.4	143.4	96.5	96.9	1,825	75.1
2nd qtr.	184.0	125.8	145.7	97.5	98.7	1,714	76.1
3rd qtr.	187.4	130.8	146.3	97.9	98.3	1,464	71.9
4th qtr.	191.0	127.4	147.4	99.1	98.3	1,608	68.2
November	191.2	127.5	147.4	99.3	98.1	1,612	68.5
December	193.4	130.4	147.9	99.6	98.8	1,638	68.4
1987							
1st qtr	192.1	129.8	149.3	100.3	100.5	1,589	69.9
2nd qtr.		128.5	150.9	101.9	101.8	1,598	72.8
January	190.4	131.7	148.9	100.0	100.0	1,602	68.3
February	191.2	129.6	149.3	100.4	100.7	1,601	69.0
March	194.5	128.2	149.7	100.6	100.7	1,539	71.9
April	196.0	128.4	150.5	101.8	101.6	1,554	72.4
May		128.0	151.1	101.9	102.2	1,612	73.3
June		129.2	151.2	101.9	101.6	1,629	72.6

* Not seasonally adjusted.

† From January 1986 includes amounts outstanding on credit cards.

Abolish special car tax to aid sales, say MPs

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE GOVERNMENT should abolish the special car tax — which adds 10 per cent to the wholesale price of a car and is unique to Britain—to stimulate sales and to help the UK motor-component sector, says a Commons Trade and Industry select committee report.

The committee suggests the time is ripe to end the tax because UK-based producers are again supplying more than half the new cars sold. Evidence given at the committee's inquiry into the UK motor-components sector indicated that the share of the market taken by imported cars, well above 50 per cent in recent years, might drop to 40 per cent next year.

The recovery in domestic car output and the fall in the value of the pound have considerably increased potential opportunities for UK component companies, the report suggests. However, the sector has only one or two years to take advantage of the currency change and to build contacts with continental European producers.

The industry's past failings will not help as it tries to win the new-style, long-term, bigger contracts, the report says.

Probably the most important trend in the industry is that only those companies which are well capitalised and able to offer research and development facilities, and are willing to set up next door to car assemblers, will survive. That represents another threat to small companies.

"Unless the UK motor-component industry successfully arrests its decline and grows rapidly, that decline will be terminal for many companies making original equipment," the committee says.

It says that also essential to survival of the UK motor-component industry is that copyright protection is not extended to functional and mundane items, which include most spare parts.

"The spare-parts manufacturers provide healthy competition to the advantage of the consumer. They would be severely disadvantaged by the proposed legislation, which would transfer much of the market, including the distribution system, to the original equipment manufacturers."

Mr Kenneth Warren, who chaired the committee in the hearings, said yesterday that members were unanimous in their findings which called for government intervention. He said: "There are some things the Government has to do and must get on and do them. The committee was trying to face life as it really is."

The report says it is imperative that the Government looks favourably on any request for financial support from companies entering or re-entering strategic areas where UK component suppliers are non-existent or uncompetitive, perhaps by encouraging joint ventures.

The MPs urge the Government to allow 100 per cent tax allowances against research and development in the first 12 months of research on any project.

The report recommends that the Government "offers relevant inducements to ensure that design authority in the motor industry, wherever possible, is in the UK." It suggests "a major threat to the components industry is the decline of the UK as a design base for vehicles.

The UK Motor Components Industry (HC407); HMSO; £15.10.

Komatsu to lift output target at NE plant

By Nick Garnett

KOMATSU, the Japanese construction equipment maker, said yesterday that it would increase production of earth-moving machinery from its plant at Birtley, near Newcastle upon Tyne, beyond the 2,400 units a year it originally planned.

The company said that was because it now intended exporting to the Middle East while its original plan was to produce solely for European and North African markets.

That would involve a further 100 jobs at the site on top of the 270 it had forecast, when it purchased the factory — formerly owned by Caterpillar, its US rival—two years ago.

The plant, which was formally opened by Prince Charles yesterday, started production last October and is producing at the rate of 60 excavators and wheeled loaders a month.

Komatsu is behind schedule, partly because of local procurement requirements to which it is committed. It is steadily increasing local content and industry observers believe the company has found the start-up of production in the north-east more costly than expected.

However, Mr Ryoichi Kawai, chairman, said the plant would reach its target of 100 units a month by the end of this year and 200 by the end of 1988.

So far, Komatsu has produced 150 units, mainly excavators. It will eventually make seven models of excavator from 12 to 30 tonnes and seven wheeled loader models.

Mr Kawai said all investment at Birtley now totalled £14m and by the end of next year would be £20m.

Komatsu says its machinery produced in the UK has 60 per cent local content. It is committed to raising that to 70 per cent by the end of next year and to 80 per cent by 1991.

At the moment, it brings in from Japan most high-cost engineered components, including engines, transmissions, hydraulics and electrics.

It does the machining and fabrication work on chassis, booms and arms at Birtley. It also sources from EC suppliers track running gear, counterweights and cabs.

Hugo Dixon looks at the latest proposals for electronic funds transfer at point of sale

Cashless shopping comes made to measure

AFTER YEARS of wranging, Britain's clearing banks have produced a blueprint on how cashless shopping is going to work, which has a good chance of satisfying all the participants —financial institutions, retailers and consumers.

Consultative proposals published on Tuesday by Eftpos UK, the company formed by the banks to set up cashless shopping, are radically different from earlier ones, and have taken the approach of maximum flexibility and competition.

As a result, banks and other financial institutions will be able to decide what cashless shopping services they are going to provide to consumers, and tailor the services they offer to individual retailers.

Retailers will be able to choose which plastic cards to accept, the financial institutions they do business with, and negotiate financial arrangements individually, rather than as a group.

The proposals relate to the business arrangements for cashless shopping, not the precise technical specifications, which are to be announced shortly in a separate consultative document.

The principle remains the same: the consumer will put a plastic card through an electronic terminal, punch in a secret code, and funds will be transferred electronically from his account to the retailer's. Cheques, cash and the paper vouchers used in credit card transactions will no longer be needed.

The business arrangements are important, because considerable savings are expected as cashless shopping sweeps away piles of paperwork. There were fears that under a less competitive scheme, the banks would have been able to keep the lion's share of those savings.

There is hope that some benefits will also trickle down to retailers and consumers. Mr Bob Woodman, chairman of the Retail Consortium committee on cashless shopping, says more competition "can't be bad for the retailer."

The proposals will apply directly to what Eftpos calls the inaugural service, a pilot scheme planned for Leeds, Edinburgh and Southampton at the end of next year.

When cashless shopping goes nationwide, it will become even more flexible and competitive, as financial institutions are allowed to build their own cashless shopping networks. How those networks will be linked together has yet to be worked out.

The proposals attempt to disentangle the different functions performed by financial institutions in providing cashless shopping services. Eftpos has identified five such functions:

- A "card issuer" issues cards to consumers. Card issuers can be banks, building societies, retailers and other institutions. The cards can be debit cards, credit cards, charge cards, or any hybrid card the institutions choose to offer.
- A "card scheme acquirer" is responsible for getting retailers to accept a particular "card scheme." A card scheme is a set of cards marketed under the same brand name. Access and Visa, Britain's two main credit card companies, are examples of card schemes. Under Eftpos definitions, a card such as American Express, which is not marketed as part of a group of cards, would be counted as a card scheme with just one card in it.

Richard Allen: "big banks will join"

- A "card issuer processor" processes cashless shopping transactions on behalf of card issuers. When a card is put through an electronic terminal, details of the transaction are sent to the card issuer processor's computer. It decides whether to accept the transaction, and if it does, it guarantees to transfer funds to the retailer's agent.
- A "retailer processor" processes transactions on behalf of retailers. It collects funds from the card issuer processor and passes them on to the retailer's bank.
- A "terminal sponsor" arranges for electronic terminals to be linked into the Eftpos network.

Financial institutions will be able to decide which of those services to provide, and retailers will be able to decide which institutions to go for which services. Charges will be negotiated bilaterally, not centrally.

As well as competing on price, financial institutions will compete on the quality of service they provide. As retailer processors, some may offer to transfer funds to retailers' bank accounts as soon as a customer has made a purchase, others may build in a delay of a few days.

Similarly, some retailer processors may offer retailers a simple service, while others are likely to use the opportunity of processing transactions to sell retailers cash management services.

Although there is considerable flexibility in the proposals, there are a number of rules designed to hold the system together.

First, as a condition of linking into the system, retailers will be bound to accept the Eftpos UK debit card. This will be a card issued by each member of Eftpos UK under a common brand name in the same way that several banks issue Access cards.

The Eftpos debit card will be the only card retailers have to accept. They will be free to choose which others to take.

Second, only members of Eftpos will be able to act as retailer processors and card issuer processors, because those roles guarantee the integrity of the payments system. Any institution will be able to supply the other cashless shopping services, provided they are sponsored by a member.

Mr Richard Allen, Eftpos UK chairman, expects all the big banks to become both retailer processors and card issuer processors, but thinks some building societies will choose to be card issuer processors only, when they are admitted to membership later this year.

The precise and complex arrangements set out in the consultative document will need to be studied by the financial community, retailers and consumer representatives, and some modifications will undoubtedly be necessary.

However, it is likely that by giving individual participants a choice in how they conduct their business, while reducing its own central role, Eftpos UK has produced a formula that will break the previous deadlock.

Business service specification for the Eftpos UK inaugural service — public consultation document. Eftpos UK, 32 City Road, EC1Y 1AA. Free.

Solution near to dispute over export credit reform

BY PETER MONTAGNON, WORLD TRADE EDITOR

AN END was in sight yesterday to a long-running dispute between banks and the Government over reform of the export credit market. In the dispute, the Government has been seeking to cut costs by negotiating lower interest margins and the right to refinance existing loans cheaply in the securities market.

After a fresh meeting between the two sides to discuss an improved government offer, officials are to seek ministerial approval for further small changes to their latest proposals before making their final position known, probably in the next two weeks.

Under its improved offer, the Government has altered the complicated matrix of interest margins it is willing to pay on export credits to improve the overall average return to banks. However, the top rate of ⅞ per cent on small sterling loans with more than 15 years to maturity was unchanged from its previous offer made in the spring.

Banks attending this week's meeting pressed the Government to fine-tune the matrix further, and their proposed amendments are among the possible changes going back to ministers.

Similarly, banks are seeking an improvement in residual margins that will be paid to original lenders once credits have been refinanced in the securities markets. Those ranged from $\frac{1}{16}$ per cent to $\frac{3}{16}$ per cent and were not changed under the improved offer.

Government officials told banks at this week's meeting that their final proposals due to be announced shortly will be made on a "take-it-or-leave-it" basis. There will be no room for further negotiations and, if the proposals are rejected by the City, the Government will simply move unilaterally to impose lower margins on medium-term export credits.

However, bankers says the latest offer from the Government puts them within sight of a satisfactory solution to a problem that has been present since last year when the Government first moved to cut the cost of subsidiisng export credits by suggesting sharply lower margins for lenders.

Although the latest proposals fall short of meeting the banks' hope of maintaining their return on export credit business, they recognise that the Government has come a long way towards accommodating their view that available earning have to take into account work involved in preparing complex financing for exporters who eventually lose the deal to overseas competition.

A concern on both sides has been to maintain the readiness of UK banks to support British exporters, but the Government has been determined to show results from its cost-cutting exercise, not least because failure would lay it open to criticism that it was capitulating to what the public perceives as the already privileged bastions of the City.

Inner city plan 'doomed unless state aid rises'

BY ANDREW TAYLOR

GOVERNMENT PLANS to attract greater private investment in Britain's decaying inner cities will fail unless it increases its own spending on aid programmes, according to a report published yesterday by an independent commission on private housebuilding in inner cities.

The report, commissioned more than a year ago by the House Builders Federation, says the difficulty and high cost of assembling and reclaiming sites had held back private developers in many inner city areas. Builders would not go ahead with schemes unless they believed they could make a reasonable profit.

The commission, led by Mr Wyndham Thomas, former director of the Town and Country Planning Association and general manager of Peterborough New Town Development Corporation, called for a doubling of urban aid programmes to help private housing schemes get off the ground.

It said: "Increased private sector investment on the scale needed will be forthcoming only if there is, first, substantially more public investment."

Grants available to assist housing programmes in inner-city areas were running at about £400m a year. They needed to be increased to at least £800m a year.

The report said local authorities should also be freed from financial restrictions which have prevented them from using receipts from sales to aid private housing schemes.

It recommended that new-style land agencies be established. They would have compulsory powers to purchase, provide services and reclaim land which could be sold for private housing in urban areas.

The agencies, initially to be funded by government, would operate in areas where local authorities were unwilling or unable, for political or financial reasons, to undertake the task of assembling unused or derelict land for private housing development.

The commission said: "There is a very strong case for a land agency in London. There could be other suitable areas in the north-west and Yorkshire."

The report recommends closer co-operation between local authorities, builders and financial institutions to develop private housing schemes that could be afforded by the less well-off.

Exempting local authority guarantees on index-linked mortgages from restraints on expenditure would also help the lower-paid to buy rather than rent.

● Bellway, a national housebuilding group, is forming a subsidiary with Hull City Council to develop a 150-acre area of derelict land near the city centre. The development will cost over £50m during the next seven years and will provide up to 1,500 houses.

Private House Building in the Inner Cities, House Builders' Federation, 82 New Carendish Street, London W1M 8AD, £10.

Hazardous waste incinerators planned

By Andrew Taylor

PLANS TO build Britain's two biggest commercial incinerators for disposing of hazardous industrial waste were announced separately yesterday by two companies. They are Cleanaway, the country's largest waste management company, and Ocean Transport & Trading, the distribution, environmental services and shipping group.

The two plants, if both are proceeded with, will more than double Britain's capacity to dispose of hazardous waste by incineration. The process is generally regarded as the most environmentally sound way of disposing of poisonous waste materials produced by chemical and pharmaceutical companies. Both plants are expected to be in the north of England.

Cleanaway is owned jointly by GKN, the British engineering group, and Brambles Enterprises, an Australian materials-handling company. It is thought to be planning to build its plant next to its works at Ellesmere Port, Cheshire. The plant is expected to cost between £10m and £12m and might have annual capacity of up to 40.000 tonnes.

Ocean, which has rapidly expanded domestic and industrial waste-handling interests in the past five years, will be making its first investment in a hazardous-waste incinerator.

It says it is looking at a short-list of seven or eight sites in the north of England. It proposes to open the works, with an annual capacity of up to 30,000 tonnes, in 1990. The development is expected to cost about £20m.

Britain has lagged behind European countries such as West Germany, France and Switzerland in investing in new incineration capacity.

A Royal Commission report on environmental pollution in 1985 warned: "There may soon be insufficient and inadequately distributed capacity to burn all chemicals for which incineration is the best practical environmental option with the consequence that more will be consigned to less appropriate disposal such as landfill."

Britain operates four commercial incinerators burning hazardous industrial waste. They have an annual capacity of about 50.000 tonnes.

A fifth plant, operated by Berridge Incinerators, was shut down in April after a High Court ruling that backed Nottinghamshire county council's decision to refuse a licence to the works.

Ocean yesterday said it had formed a subsidiary, Ocean Environmental Management, to house its growing domestic and industrial waste-disposal interests.

The company said it expected that by 1990 its environmental-management division would be generating profits of about £20m a year, compared with just a few millions now. That rise would not include the impact of the new incinerator, which would not be open until the end of the decade.

Clay Harris on the union between British Airways and BCal

Taking off for the mega-merger

WHEN British Caledonian finally fell into the embrace of its old enemy, British Airways, in the small hours of yesterday morning, it consummated a search for a partner that began two years ago but had in recent months become increasingly desperate.

Although BCal claimed yesterday that it was still on course to return to profit this year after the group's £19.3m pre-tax loss in 1986-87 (including a £25.5m loss on airline operations), there are indications that the recovery was not living up to original hopes.

Inded, BCal's performance is believed to be lagging behind its performance at the same time last year. The profit figures were likely also to be dependent on continuing sales of assets.

Yesterday's deal was also notable in that it constituted BA's first important acquisition since its £900m offer for sale in February. City analysts forecast yesterday that the acquisition could have a slightly dilutive effect on BA's earnings in the current year, but would boost them subsequently as BA introduced economies.

The combination, promoted as necessary to compete with US "mega-mergers," was also remarkable for the role Goldman Sachs, the US investment bank, played as sole adviser to BCal. This was the first time it had acted, without UK partners, in so large a deal involving only British companies.

BCal had barely disguised that its independence was up for grabs—a few flirtations had been conducted in the public eye. In the end, the most central question was price, and the terms of BA's successful offer clearly demonstrated that BCal was worth far more to its UK rival than to anyone else.

Indeed, BCal's performance is at £237m, compared with net assets probably only marginally higher than the £97.2m figure on October 31, is clearly intended not only to repel any would-be rivals but also, if necessary, to retain its attractions if it had to be revived early next year after a reference to the Monopolies and Mergers Commission.

The level of the offer—to be funded by the issue of 108m new BA shares—is aimed at diverting speculation that BCal was in danger of imminent collapse. Had that been true, BA might have picked up BCal's assets much more cheaply by waiting a few months.

Although neither side was keen yesterday to identify from which side the initial approach came, the subject of a possible link appears to have been broached about six weeks ago in an informal conversation between middle-ranking executives of the two airlines.

BA turned out to have received a far less frosty reaction than it expected from its long-time antagonist, Sir Adam Thomson, BCal chairman. Discussions in earnest began a few weeks ago.

By then, all BCal's other options had fallen through. Sir Adam said yesterday that BCal had discussed various means of co-operation, including operating links such as its joint flights to Atlanta with Sabena, cross-shareholdings or even unilateral stakes in BCal by foreign carriers.

BCal had approached — or been approached by—five different European airlines and several of the largest North American carriers. In the latter case, BCal felt that 20 per cent to 25 per cent was the maximum holding that would have been politically acceptable. With Europe, in theory, moving towards integration, the threshold for a continental partner would probably have been higher, Sir Adam said.

The airline had not been involved in any discussions with carriers outside Europe or North America, Sir Adam said. In May last year, BCal and International Leisure Group, the tour operator and owner of Air Europe, ended merger talks.

BCal, an unquoted company, was still hoping at that point eventually to come to market with a full listing, even though such plans had previously been shelved.

The new BA shares were underwritten at 205p by Lazard Brothers, the airline's merchant bank. This price is for fully paid shares and compares with the 230p price implied by the partly paid shares' 10p rise to 170p in trading yesterday. BA shareholders must pay the final 60p instalment by August 18.

Opposition gathers to an airline marriage

David Churchill on reaction to the merger plan

INDEPENDENT British Airlines are meeting this morning to decide whether collective action to oppose the British Airways and British Caledonian merger is not only required but also likely to succeed.

The meeting was instigated by Mr Harry Goodman, chairman of the International Leisure Group, operations of which include the Intasun tour operator and the Air Europe airline.

Mr Goodman was in a combative mood yesterday about the proposed merger and announced his intention of fighting it all the way.

As a first step, Air Europe had applied to the Civil Aviation Authority to revoke all BCal's licences for its scheduled European services. At the same time it applied to take licences for all of BCal's European routes it does not already hold.

Mr Goodman's anger at the plan reflects the fact that a year ago it was his ILG operation that was holding merger talks with BCal. It also reflects the concern of smaller airlines, especially in the charter business, that they may face tougher—and what they regard as unfair—competition from a joint BA and BCal operation.

It is not only the airlines tha are worried by the merger. Although the travel industry was surprised by the announcement yesterday, the immediate reaction was one of uncertainty.

Travel agents in particular are concerned about what it means to them.

Mr Roger Peverett, marketing director of the Lunn Poly travel agency chain, said: "The merger give British Airways scope to rationalise, but it is vital to the travel industry that the high frequency of flights and choice of UK departure airports are maintained if the customer's interests are still to be served."

Other agents also see similarities with the US experience of deregulation. Mr Richard Gapper, group managing director of Pickfords Travel, said: "This is the beginning of the restructuring of the airline industry in advance of deregulation in Europe."

The merger plan would bring no immediate benefits to BA as far as the travel industry is concerned.

Over the past year, BCal has pulled out of the tour operating business, selling its Blue Sky, Arowsmith and Jetsave tour operating companies.

BA, however, is the fourth-ranking tour operator, operating from the UK through such names as Enterprise, Sovereign, Speedbird, and Poundstretcher.

Yet senior BA executives disclosed this week that BA was seriously concerned about difficulties facing the package-tour operating business.

It believes the fierce price competition by other tour operators—including Mr Goodman's Intasun operation — is leading to a lowering of standards. Last year, BA's main tour operation, BA Holidays, incurred a £4.8m loss, although BA hopes to return to profit this year.

One significant aspect of the merger plan is that it would give BA its own hotel operation. Unlike other airlines, BA has never owned an international hotel chain, relying instead on a network of more than 300 associate hotels throughout the world.

BCal, however, owns the Copthorne Hotel chain, which has 27 hotels throughout the world —ranging from the Heywoods hotel complex in Barbados to the newly opened Copthorne in Norwich—with more than 7,000 bedrooms in total.

BA will have to decide—if the merger goes ahead—whether it wants to stay in the hotel business or if it will want to sell Copthorne.

Securities rules published

BY CLIVE WOLMAN

THE SECURITIES Association, largest of the self-regulating organisations under the new City regulatory framework, yesterday published its rule book and other details of its application for recognition from the Securities and Investments Board.

It also announced the appointment of Mr John Young, formerly the Stock Exchange's director of policy and planning, as chief executive. Mr Bob Wilkinson, head of the Stock Exchange surveillance department, has been appointed director of enforcement.

The rules follow fairly closely those already published by the SIB. In particular, its capital adequacy rules for individual firms, which are based partly on the riskiness of their portfolios of securities, are almost idenfical.

Mr Andrew Large, chairman, said most of the firms active in the Eurobond market would have to take on a modest amount of additional capital backing to comply with the rules. However, he said the greater riskiness of the Eurobond market had meant that most would probably have felt it prudent to inject more capital anyway.

There are, though, some differences in the two sets of rules. For example, the association has a different definition of a business customer of a securities firm, who is afforded a lower level of protection because of his experience than the ordinary private investor.

Whereas SIB rules say a customer may be afforded a lower level of protection only when he is engaged in transactions in which he has expertise, the association rules assume that a business customer will have sufficient experience to require a lower level of protection across all transactions.

The rule book is tougher on securities firms in other respects. For example, SIB rules require that every authorised firm, and its directors, managers and partners be subjected to a "fit and proper" test.

However, the association will also apply the same criteria to all individual employees who have close contact with customers of the firm. Such registered representatives and registered traders will have to pass an examination unless they are granted an exemption.

The disciplinary structure will work on four levels. A preliminary inquiry will be undertaken, followed by a formal investigation that will make recommendations to the disciplinary committee.

There will also be an appeals procedure. Penalties can range from a reprimand through fines to expulsion. The maximum fine on an individual registered person is £100,000 but there is no limit for firms.

The rule book has also been sent to the Office of Fair Trading which will comment on any anti-competitive elements in it. The association is likely to be recognised by the early autumn and the full provisions of the bill will probably take effect early next year.

European underwriting requirements, Page 26

'Limited scope' for reducing jobless

BY JANET BUSH

THE SCOPE for still greater reductions in unemployment would inevitably be limited as long as average earnings continued to rise at three times the rate needed to maintain living standards, Mr Nigel Lawson, the Chancellor, warned yesterday.

In a speech to the Bury North Conservative Association, he said: "The responsibility for correcting this lies fairly and squarely on the shoulders of employers, who must always keep a close eye on what their competitors overseas are doing."

Employment Department figures released yesterday showed the underlying rate of growth of average earnings had remained at 7¾ per cent in the year to May, the same as in the year to April. This compares with an underlying rate of 7½ per cent recorded until April in every month but two since September 1985.

Mr Lawson said a further aspect of a properly functioning labour market was training. The Government had substantially increased its spending on training and British industry itself, bolstered by greater profitability, should expand its training schemes, which generally fell well short of those in most of Britiain's competitors.

"Spending extra money on training, rather than on higher pay, will be of much greater benefit in the long run to the business, the employee, and the unemployed person looking for a job," he said.

He highlighted what he termed the alarming fact that, of the long-term unemployed, one in five could not read and write well enough to fill most jobs and about one in eight could not write sufficiently well even to apply for a job.

He said these facts alone justified the Government's initiatives to improve standards in schools.

The Chancellor noted big changes in the pattern of employment. More people were being employed in small companies, there were 750,000 more self-employed people since 1979 and more part-time workers.

CES directors resign and agree compensation

By Philip Coggan

THREE DIRECTORS of Combined English Stores, the retail group recently acquired by Next, the fashion and mail order company, have resigned.

Next won control of CES with an agreed bid which topped an earlier agreed offer from Ratners, the jewellery chain.

The three — Mr Murray Gordon, executive chairman, Mr David Roxburgh, deputy chairman and chief executive, and Mr Pat Hammond-Turner, assistant managing director—were sent on what was described by Next as "long holidays" last week pending discussion of their position.

Solicitors for Next and the CES directors have now agreed compensation terms.

Talks are still proceeding on the terms of settlement with a fourth director, Mr Tony Haygarth.

Bill launched for privatisation of water industry

BY RICHARD EVANS

THE GOVERNMENT yesterday launched its controversial plans to privatise the water industry, with the publication of a paving bill to clear the way for the flotation of hte 10 water authorities in England and Wales, together with a consultative document proposing the setting up of a National Rivers Authority.

The paving bill, which also covers the electricity supply industry, will ensure that water authorities have adequate powers to prepare for privatisation. It will also enable a series of compulsory metering trials to take place.

Once the bill has passed through parliament, the scene will be set for the privatisation legislation that could be introduced later this session, but will almost certainly be delayed until the 1988-89 session.

That timetable would mean that the water authorities, which might be worth between £6bn and £8bn to the exchequer, until late 1989 or early 1990. will not be ready for flotation No decision will be taken for some months on the form privatisation will take.

The consultation document, or green paper, proposes the formation of a state-controlled National Rivers Authority to take over the regulatory functions currently exercised by the water authorities. It will ensure a fierce continuing battle over privatisation.

The trade unions in the industry, and the Labour Party, are predictably opposed to the Government's plans, but many of the industry's leaders are also unhappy about the proposals.

That is largely because they would end the much-praised system of integrated river basin management, the control by one authority of all processes, from collecting rainfall to disposing of sewage, and including regulation.

Comments on the document can be submitted until October 15, but all the indications are that there is little room for change.

The original privatisation proposals, to leave the regulatory functions with the privatised authorities, had to be withdrawn a year ago because they met so much opposition from environmental groups, the Confederation of British Industry, and others.

If the Government is to go ahead with privatisation, it has little option but to set up the rivers authority, no matter how strong the opposition.

The regulatory functions it will take over include water conservation, pollution control and environmental quality, monitoring of licences, land drainage and flood protection, fisheries in inland waters, and navigation in the case of the three authorities affected—Anglian, Southern and Thames.

The NRA will have between ten and 12 members, appointed by the Environment Department, the Ministry of Agriculture and the Welsh Office.

What is not known is the overall cost, although it is estimated that the operational losses from the functions to be transferred to the NRA amount to £33m a year. The NRA will be encouraged to recoup as much as possible from charges, with the remainder coming from an annual Exchequer grant in aid.

Lord Belstead, the Environment Department Minister of State who will be responsible for the bill in the Lords, said in London that the NRA should be "a relatively slimline operation." He rejected the view that it would develop into a top-heavy bureaucracy.

That is certainly the view of Mr Roy Watts, chairman of Thames Water, the largest and most profitable of the authorities. He described the green paper as "short on costs, short on vision and short on consultation."

In his view, the document confirmed that the decision to set up the NRA had already been made, and another quango would lead to a big increase in costs, would cause confusion, delay decision-making, and reduce the value of Thames on flotation.

Nalgo, the union with most members in the industry, said the Government had put forward no good reasons for privatisation. "The latest proposal to break up the integrated system will throw the industry into chaos . . . even pro-privatisers oppose this plan," it said.

The decision to allow trials of domestic water metering, one large one involving 50,000 households, and 10 smaller ones, was welcomed by the Water Authorities Association and by the statutory water companies.

The industry is particularly anxious to press ahead with metering, which is available on a voluntary basis, because the present basis of charging, domestic rates, will disappear with the introduction of the community charge, or poll tax. The authorities and companies will be responsible for the costs of the metering trials, but there will be a government subvention.

BBC names editorial manager team

BY RAYMOND SNODDY

THE management team for the directorate of news and current affairs for radio and television was announced yesterday by Mr John Birt, deputy director-general.

He said it was a blend of experience and youth that would allow "some new vigorous creative people into the engine of BBC journalism." All but one of the appointments are from within the corporation.

Mr Ron Neil, editor, television news, has been appointed deputy director, news and current affairs, reporting to Mr Birt.

Other members of the senior management team are Mr Tony Hall, nine o'clock news editor, who becomes editor, news and current affairs, television, and Mr Samir Shah from London Weekend Television who becomes his deputy.

For radio Ms Jenny Abramsky, who edits the Today programme on Radio 4, is made editor, news and current affairs, radio, and Mr Roy Walters her deputy.

Mr Larry Hodgson, editor, radio news, becomes editor, news and current affairs for regional broadcasting. Mr Tony Crabb becomes special assistant to Mr Birt and Mr Roy Vitty becomes general manager resources.

The main loser in the management changes is Mr Peter Pagnamenta, head of television current affirs, who was told he would have no place in the directorate.

Mr Birt said the team had been selected personally, without the usual BBC system of boards, where potential candidates are interviewed. He said it "represents my view, although I consulted widely, of the best blend of talents to carry forward the new directorate."

It was emphasised that the appointment this week of Mr John Wilson as controller of editorial policy, was separate from the management of the directorate. He will be involved with standards of all BBC factual programmes.

● Independent television companies are in favour of joining the BBC in a joint venture to run The Listener magazine.

This week managing directors of the ITV companies asked Mr George Cooper, chairman of Independent Television Publishers, which produces TV Times, to investigate the proposal. He will produce a business plan for what would be a stand-alone company.

Amstrad to form Italian subsidiary in sales drive

BY DAVID THOMAS

AMSTRAD, the consumer electronics group, is forming a subsidiary in Italy as part of its strategy of putting increasing emphasis on sales outside the UK.

Amstrad's main successes on the Continent have been in France, West Germany and Spain, where it has sold word processors and audio equipment, and, more recently, its low-cost personal computer launched last September.

Those three countries accounted for 45 per cent of its sales in 1985-86

However, Mr Alan Sugar, Amstrad chairman, is putting more emphasis on sales on the Continent and recently announced that he was beginning to sell his video recorders in key Continental markets.

Amstrad is proposing to sell all its products, including computers, printers and peripherals, and audio and video products, in Italy, where it has not sold much before.

In deciding to set up an Italian subsidiary, based in Milan, Amstrad is breaking with its usual practice, which is to sell goods abroad through distributors, thereby reducing its exposure in a foreign market.

Amstrad's Italian subsidiary will be entirely staffed by Italian nationals, and managed by Mr Ettore Accenti, with a background in the computer and office equipment business.

Amstrad estimates that this year in Italy 280,000 personal computers and word processors will be bought for business use, 290,000 for the home and 55,000 for educational and scientific purposes.

BAe rationalises divisions

By Lynton McLain

BRITISH AEROSPACE went further yesterday towards reorganising its divisional structure by creating another division, to become operational on January 1.

The decision brings together the former air weapons, army weapons and the naval and electronic systems divisions into one, as yet unnamed.

BAe said a task force was to be set up with a remit to find a way of running the division in the future, including looking at ways of avoiding duplication in manufacturing and other facilities among the former separate divisions.

Shoe technology project launched

THE Department of Trade and Industry is launching an unusual scheme to promote the use of new technology in the footwear industry

The project, known as the Footwear Industry Best Practices Advisory Scheme, will offer companies free consultancy advice

The scheme will be managed by the British Footwear Manufacturers' Federation.

Funds invested in financial institutions rise by 9%

BY RALPH ATKINS

THE FLOW of funds into Britain's financial institutions increased sharply in the first quarter, helped by heavy bank borrowing by security dealers.

Figures from the Bank of England show £17.1bn flowed into institutions such as building societies and pension funds, a 9 per cent increase on the previous quarter.

Bank borrowing, which has moved erratically in the past few years, more than doubled to £7.58bn. Most appears to have been taken by security dealers, mainly in foreign currency.

However, identified investment by financial institutions fell by 22 per cent to £13.5bn compared with the previous quarter. The disparity is probably due to security dealers not giving a comprehensive account of their investments.

For the second successive quarter there were large sales of British government securities

Investment in overseas shares increased from £1.27bn in the last quarter of 1986 to £2.04bn in the first three months of this year. But investment in UK shares fell by 8 per cent to £1.15bn.

Lending for house purchases fell by £1.9bn to £4.12bn but it was still 4 per cent higher than the same period in 1986.

The figures show the flow of funds into building societies was £3.1bn in the first quarter — a 40 per cent dro

Palumbo plan rejected

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

MR PETER PALUMBO'S last hope that the City of London would approve his scheme for redevelopment of listed buildings opposite Mansion House vanished yesterday.

The City council voted on a show of hands to reject the scheme and to support the recommendation of its planning committee.

Today Mr Palumbo's representatives will be talking with advisers to prepare an appeal. That might lead to a second public inquiry and leave the final decision with Mr Nicholas Ridley, Environment Secretary.

Ferry company changes name

TOWNSEND THORESEN yesterday confirmed that its name would be changed to P and O European Ferries. The corporate style will be phased in during the autumn. The Pride of Calais will be the first ship to appear in new livery when it is introduced to service at the end of November.

The company's subsidiaries, Townsend Car Ferries, Thoresen Car Ferries and Atlantic Steam Navigation will become, respectively, P and O European Ferries (Dover), P and O European Ferries (Portsmouth) and P and O European Ferries (Felixstowe).

Tarmac bitumen deal with Shell

SHELL AND Tarmac are to set up a joint venture company to make bitumen products at Tarmac's bitumen refinery at Eastham, Merseyside, which the company will buy from Tarmac for about £14m.

The deal would raise production efficiency of both Shell and Tarmac, the companies said yesterday. However, they said it would not extend to marketing and distribution of bitumen, which both companies will continue to do independently.

UK NEWS

Falklands lessons 'would be costly'

BY LYNTON McLAIN

SPENDING ON convertional defence would have to rise if all the lessons from the Falklands conflict were put into effect and all shortcomings remedied, the Commons defence committee said yesterday.

In a report on implementing the lessons of the Falklands campaign, which started in the spring of 1982, the committee said there were some serious deficiencies in the performance of equipment and systems used in the conflict, although no system proved a total failure. The committee was concerned that, as time elapsed, " the urgency of remedial action to deal with the problems encountered in the south Atlantic may diminish."

The report is highly critical of the effect on the capability of armed forces of the Government moratorium on defence spending in the latter part of 1980-81. "The moratorium prevented or delayed improvements to rectify known weaknesses; it led to a backlog in repairs and it disrupted the purchase of spares. It was potentially very damaging to the readiness of the armed forces."

It was only the urgency stimulated by the campaign and the long voyage to the Falklands that enabled some deficiencies to be made good.

"It is important that ministers and officials recognise the likely impact of cost-cutting exercises, not least those which masquerade as the management of the defence budget," the committee said. "Relatively small economies may have a disproportionately large effect on capability and readiness."

The Royal Navy's air defences and fire and battle damage control on board ship particularly concerned the committee. Steps were taken during the conflict to improve naval air defence, but the committee said it was still concerned at the apparently low priority given to damage control.

The committee found evidence " of not just one or two shortcomings in fire damage control, but of many, from ship design to on-board maintenance of essential fire fighting equipment." Fire prevention, fire and battle damage control and survivability must be given a high priority in future ship designs, the report says.

In an analysis of the effectiveness of air defence in the Falklands campaign, the committee concludes that " economy in air defence of ships may result in the unnecessary loss of a ship, or in two ships having to be used to do the work of one is clearly false economy."

The committee welcomed plans to improve the Sea Dart anti-aircraft missile and to install the vertically launched version of the Sea Wolf anti-missile missile on warships. " We also hope to see rapid and widespread introduction of modern effective close - in weapon systems."

About a quarter of the British Aerospace Rapier missiles fired in the Falklands conflict "went out of control due to equipment failure, and of the remaining missiles fired, roughly one third scored a hit," the committee said.

The committee was concerned that "at times of financial stringency, it is tempting to make savings by trimming around the edges."

Implementing the lessons of the Falklands campaign, House of Commons defence committee, HMSO, £8.60

Call for formalised adult training system

BY CHARLES LEADBEATER, LABOUR STAFF

THE ADULT training system is riven with serious deficiencies which may only be corrected by the introduction of a more formalised system for ensuring that companies undertake a reasonable level of training, according to a report published yesterday by the Commons public accounts committee.

The report will intensify the debate over whether a statutory system to ensure that employers undertake a reasonable level of training should be introduced to replace the voluntary arrangements that apply throughout most of industry.

The report on the Manpower Services Commission's £275m adult training strategy says employers are still not meeting their training responsibilities. It says that under present arrangements, which allow most employers complete discretion to determine their approach to training, any deterioration in the economic climate would almost certainly worsen an already unsatisfactory situation.

The committee is not convinced that the MSC's efforts to persuade employers of the need to train will be successful. The report says: " We note that the MSC intends to review its strategy in 1988 and we expect this to provide the opportunity to consider alternative arrangements including the option of a more formalised structure, aimed at ensuring employers actually carry out the training role which we consider is vital to the economy."

That will be seen by many as coded support for some kind of levy or statutory system to raise the level and quality of training.

The commission's training strategy is hindered by a lack of information about how much employers spend on training and industry's skill training needs. The establishment of a labour market information system that would allow training to be more tightly tailored to employers' skill needs is long overdue, the report says.

The controversial new Job Training Scheme, which is being expanded to provide 110,000 places by the late autumn, should be expanded no further without a thorough assessment on the quality of training provided, the report says.

Manpower Services Commission—Adult Training Strategy, House of Commons, Committee of Public Accounts' 16th Report, Session 1986-87, House of Commons Paper 223, HMSO, £3.60.

Ombudsman's jurisdiction extended to 50 bodies

BY DINA MEDLAND

POWERS TO investigate complaints against central government departments have been widened from this week to include an extra 50 non-departmental public bodies, Mr Anthony Barrowclough, the Ombudsman or Parliamentary Commissioner, said yesterday.

Among the more prominent bodies listed in the extension of jurisdiction are the Arts Council, the British Council, the Equal Opportunities Commission, the Horserace Betting Levy Board and the Commission for Racial Equality. Various development corporations and boards, research councils, sports councils, tourist boards and training boards are also included.

Since 1967, when the office was founded, the Ombudsman has looked into thousands of complaints on behalf of members of the public who seek redress for having been allegedly badly served by a government department or authority. Their cases are channelled to the Ombudsman through MPs. The extension of powers will allow MPs to refer a wider range of cases to the Ombudsman.

Engineer employers call for state-industry forum

BY RALPH ATKINS

A GOVERNMENT-INDUSTRY forum should be set up to develop an industrial strategy for the UK, says a report publishe dtoday.

The Engineering Employers' Federation says a forum would increase understanding between key decision-makers, including civil servants, finance houses, politicians and industrialists.

The report proposes the forum be initiated by the Trade and Industry Department. It would meet continuously with participants appointed as individuals and not representatives of employers or political parties.

The federation says an industrial strategy is essential if the UK is to develop the knowledge, skills and attitudes needed

Dr James McFarlane, director-general of the federation, said yesterday: "Markets are seldom perfect. They may be operating on incomplete information or, of course, they may be distorted by intervention.

Towards an Industrial Strategy, Engineering Employers' Federation, Broadway House, Tothill Street, London SW1H 9HQ.

Call to heed model rules on personal pensions

By Eric Short

LIFE COMPANIES, banks, building societies and unit trusts designing personal pension schemes for sale to employees will have to stick closely to the model rules laid down by the Occupational Pensions Board if they want approval in time for the start date of January 4, 1988.

That was the message given yesterday by Mr Jeremy Rowe, board chairman, when he set out his board's approach to approving the new-style pensions schemes introduced by the 1986 Social Security Act.

If the institutions use the model rules, Mr Rowe claimed, approval for personal pensions contracting out of the State Earnings - Related Pensions Scheme would be made within a week of receiving the application.

However, he emphasised that any scheme with different rules would go to the bottom of the pile, the implication being that approval might be delayed beyond the start date.

Personal pensions scheme have to receive tax approval from the Superannuation Fund Office (SFO) of the Inland Revenue before the OPB can deal with the contracting-out aspects and give an appropriate sceme certificate.

Although the SFO was not at the conference, Mr Bob Lusk, its controller, said afterwards that it would be producing a set of model rules which, if adhered to, would make procedures straightforward so that approval could be given within a fortnight.

An underlying problem for the SFO and OPB, which are working to tight timetables, is that no one knows how many institutions intend to offer personal pensions or how many schemes they will submit. An institution can offer more than one scheme, each of which will need separate approval. Mr Dave Allsop, controller of the board's executive office, guessed there might be 1,000 schemes.

Another problem is that the final regulations under the 1986 act were published only a few days ago, while the Finance Bill setting out the tax rules is still going through parliament.

Finally, it is a new game with new players. The 1986 act brings banks, building societies and unit trusts directly into the pensions field for the first time.

Record sales and output at Jaguar

By Kenneth Gooding, Motor Industry Correspondent

JAGUAR achieved record car sales and production in the first half of the year. Output increased by 7 per cent to 23,663 compared with the first six months of 1986. Sales rose by 9 per cent to 22,184.

The company said yesterday it was on the way to exceeding its production target for the year of 47,000.

The company predicted initially that the top-of-the-range Daimler models would account for 15 per cent of the sales of the new XJ6 saloons. However, the proportion is double that.

Sales of the XJ6 in the domestic market increased by nearly 50 per cent in the first half to 5,813, and should be about 11,000 in the full year, against 7,500 in 1986.

Continental sales increased by 40 per cent to 3,542 in the half-year.

Canadian sales rose by 35 per cent to 1,275. US sales were held back as customers awaited the introduction of the new XJ6 in the spring. They were 12.9 per cent down at 10,024.

Jaguar said, however, that the new car was sold out until the end of the year in the US, its biggest single mraket.

Investment in leisure rises

By David Churchill, Leisure Industries Correspondent

INVESTMENT IN tourism and leisure developments in England totalled £1.24bn in this first half, says a survey by the English Tourist Board published yesterday. In the previous six months, leisure investment totalled £961m.

The high level was welcomed yesterday by Mr Duncan Bluck, board chairman. He said it emphasised the importance of tourism as a job and wealth creator.

The survey identifies the development of budget hotels as a growing trend, with most leading leisure and brewery companies involved in it. In this first half, a total £295m was spent on new hotels. Hotel expansion and refurbishment, mainly in London, account for a further £156m.

The survey shows a marked rise in investment in theme parks, which accounted for about £22m of investment in this first half. Alton Towers, Chessington Zoo and Thorpe Park have opened big new attractions in the past half.

Other trends include more investment in self-catering holiday accommodation.

Tourism Investment Report, January-June 1987; English Tourist Board, Dept D, 4, Bromells Road, London, SW4 0BJ; £25.

Sunday Times bows to Spycatcher injunction

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

THE SUNDAY TIMES yesterday submitted to a High Court injunction, brought by the Attorney-General, stopping it publishing further extracts from Peter Wright's book Spycatcher.

It had intended to publish the allegation by Mr Wright, a former MI5 officer, that the late Sir Roger Hollis, a former head of MI5, was a Soviet spy, as part of its serialisation of the book.

The newspaper and Mr Andrew Neil, its editor, agreed to submit to an injunction after Sir Nicholas Browne-Wilkinson, the Vice-Chancellor, indicated that he would feel obliged to make an order in view of Wednesday's Court of Appeal ruling that any paper using information from Mr Wright might be in contempt of cuort.

The injunction was made until 10.30 on Tuesday, by when the Appeal Court is expected to have given detailed reasons for Wednesday's ruling. That overturned Sir Nicholas's decision last month that newspapers against which no injunction had been made could not be in contempt.

Later yesterday it was announced that the Appeal Court would give its full judgement today.

Sir Nicolas said the perspective of the relevant law might have changed dramatically over the past few weeks, and without knowing what the new law was, he could not rule on the Sunday Times case.

He said that the case, and another involving The Independent, London Evening Standard and London Daily News, all stemmed from injunctions obtained by the Attorney-General against The Guardian and The Observer a year ago.

The judge said arrangements should be made for applications by The Guardian and Observer to end injunctions against them, to be heard on Monday, and that The Sunday Times case could be linked with that hearing.

The Attorney-General, Sir Patrick Mayhew QC, issued contempt proceedings against The Sunday Times after it published four pages of extracts from Spycatcher last Sunday. He went to court to seek an injunction after Mr Neil declined to give an assurance that no further extracts would be published on Sunday.

Mr John Laws, for the Attorney-General, said that the newspaper was threatening to commit a grave contempt. The course of justice was "fractured" by such publication while the injunctions against The Guardian and Observer remained in force.

Mr Anthony Lester QC, for The Sunday Times, said that the Attorney-General was seeking "a draconian sanction" which "menaces the basic right to free expression."

BT in cordless phones link-up

BY DAVID THOMAS

BRITISH TELECOM and STC, the UK electronics group, are co-operating to develop a new generation of cordless telephones.

The arrangement is unusual because BT intends to keep control of the development and spearhead sales on the Continent, which it believes might be large.

Cordless telephones, which cost between £100 and £150, offer a cheaper, although much more limited form of mobile communications than cellular telephones. They can be used within a relatively short range of their home base station.

BT and STC are starting intensive work on the next generation of digital cordless phones, codenamed CT2. They will differ from the present analogue generation in being able to handle many more calls in the same area.

The companies believe that will lead to the use of cordless telephones on a mass scale at work for the first time. So far they have been limited mainly to residential use.

BT has done the early development work on the digital cordless telephone and STC will take on the next stage of development, for which BT has given it an initial contract of £6m, and will make the telephones at its Belfast factory.

STC said it would be making tens of thousands of the telephones in the first year of output, which will be 1990. It hoped to sell them for about £200 each.

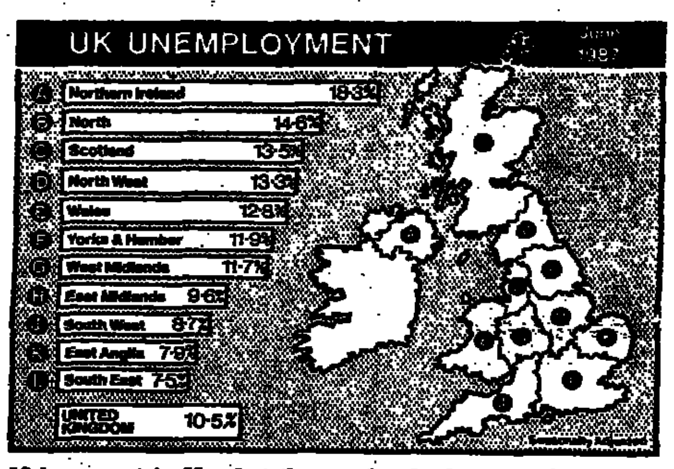
BT will then take over marketing. It has put its international products division in charge of the project because it believes it will be able to sell many of them abroad, particularly on the Continent.

European telecommunications authorities are considering what standards to adopt for Europe-wide digital cordless telephones. The two main options are the British standard and one being proposed by Ericsson, the Swedish telecommunications group.

BT is discussing with other interested groups in the UK the idea of using the new cordless telephones at specially provided "telepoints" in public places such as railway stations where users would be able to key into the public telephone network.

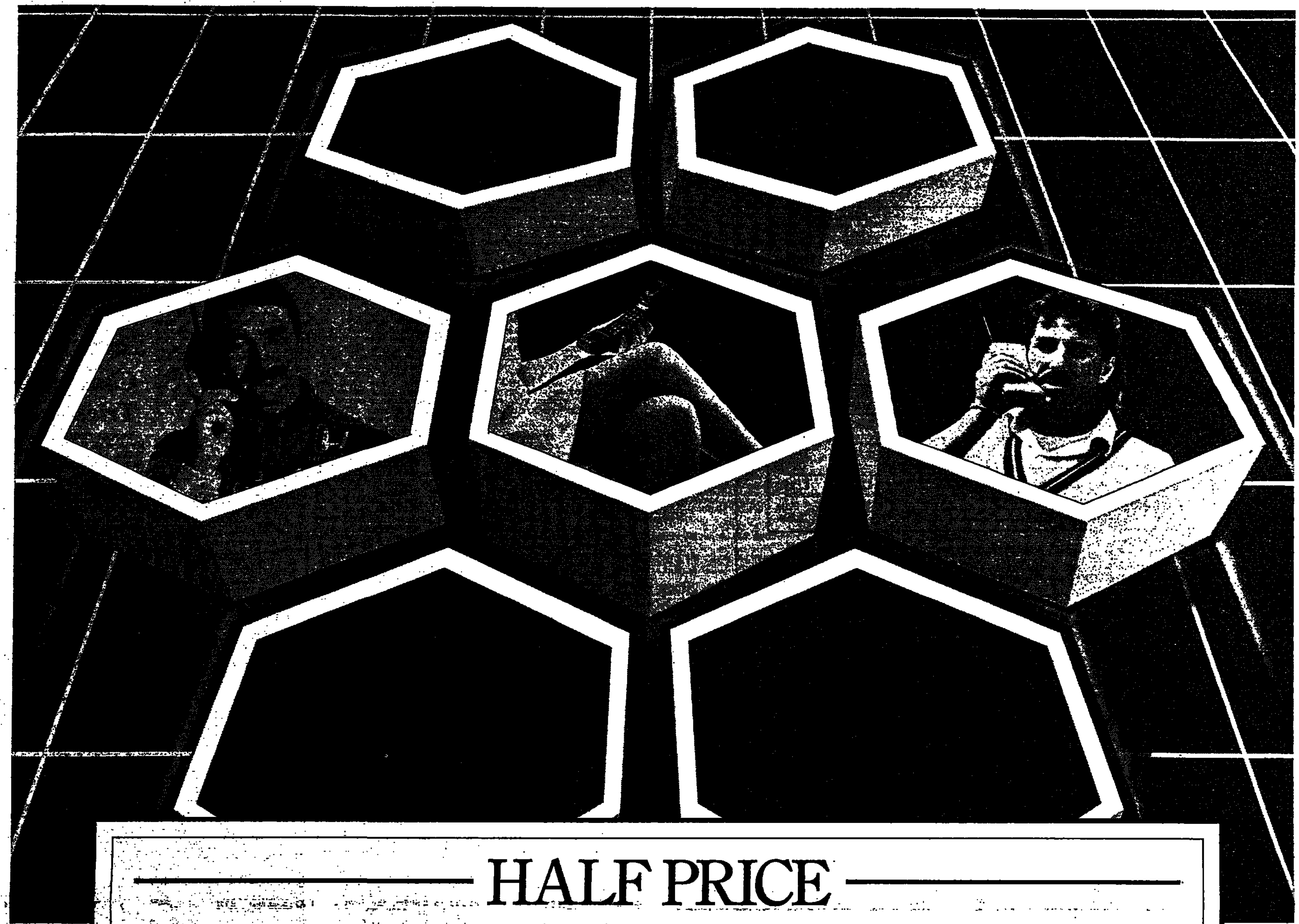
THE EMPLOYMENT Department's seasonally adjusted unemployment total fell by 27,000 last month to 2.925m, its lowest level since December 1983, writes Janet Bush.

During the past 12 month the seasonally adjusted total has fallen by 287,000, the largest fall in a year on record, says the department. The unadjusted total, including school-leavers, fell by 81,128 to 2.905m, the lowest since August 1982. The fall of 324,000 in this total during the past year is also the largest 12-month decline on record.



There were falls in recorded unemployment in all regions, including Northern Ireland, which saw a tiny 500 decline. That gave a slightly lower unemployment rate of 18.3 per cent compared with 18.4 per cent in May but the rate remains by far the highest in the UK.

The largest fall in the number of jobless again came in the south-east, which already had the lowest unemployment rate. The south-east saw a decline of 11,200 in its jobless total to give a rate of 7.5 per cent compared with 7.6 per cent in May.



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APPOINTMENTS

Rank Organisation finance director

THE RANK ORGANISATION has appointed Mr Nigel Turnbull as finance director. This follows the assignment of the previous finance director, Mr Douglas Yates, to be director of special projects responsible for areas of strategic planning, corporate development, acquisitions, divestments and investment. Mr Turnbull was finance director of Tricentrol.

★

At AVIATION AND GENERAL INSURANCE COMPANY Mr P. Crawford is appointed a director. He succeeds Mr C. R. Jeffs as general manager and chief underwriter. Mr Jeffs has retired, but remains on the board as a non-executive director.

★

Mr Pierre Moussel has been appointed managing director of ELF AQUITAINE UK (HOLDINGS) and ELF UK. He assumes responsibility for all ELF's exploration and production activities in the UK. Mr Moussel has also been named chairman of ELF Petroleum (GB) which is the group's distribution subsidiary. Mr Moussel joined the ELF Group in 1953. In 1984 he became executive director for the group's exploration subsidiaries and new ventures worldwide.

★

NATIONAL INVESTMENT GROUP has appointed Mr Anthony Puckridge as director of business development. He was a director of Lazard Brothers and Lazard Investors.

★

Mr A. J. D. (Adrian) Franklin has been appointed managing director of COSTAIN CIVIL ENGINEERING. He succeeds Mr R. G. (Ray) Alexander, who is retiring. Mr Franklin spent a four-year period with Costain International covering part of the Middle East, before returning to Costain Civil Engineering as general manager in 1986.

★

Mr Jim Divers has been appointed to the board of AUTHORITY INVESTMENTS as group finance director. He joined the group as finance director designate in April 1987.

★

Mr G. S. Haslehurst and Mr J. Lees have been appointed directors of STERLING BROKERS, a subsidiary of Mayflower Group, and Mr J. Brown has been appointed an assistant director.

★

Mr Christopher Wood has been appointed group pensions manager at SIMON ENGINEERING, following the retirement in July of Mr Ray Nichols. He has been with the Simon pensions and employee benefits division for seven years.

New chief executive of Gammon

Mr John Chan is to be appointed chief executive of GAMMON (HONG KONG) from August 1. He has been with the Jardine Group since 1970 and has had broad experience in a number of different fields including a secondment to Gammon in the late 1970s. Since 1984, Mr Chan has been chief executive of Zung Fu, which is owned 75 per cent by Jardines. Mr Jim Carlile, who has been seconded to Gammon from Trafalgar House as group managing director, is to return to the UK to take a senior appointment with the company. Mr Allan Gormly, a board member of Trafalgar House, will be appointed a director of Gammon on August 1 and will become chairman on January 1 1988. Mr Gormly is resident in London. Mr David Morris will continue as chairman of Gammon until December 31 and will thereafter assist as a consultant. Gammon is jointly owned by Trafalgar House and Jardine Matheson & Co.

★

Four directors have been appointed in the F. H. TOMKINS GROUP. At Hayters, Mr George Seal has been appointed manufacturing director and Mr Michael Roberts technical director. Mr Seal was previously with SKF and Hoover and Mr Roberts was development manager at Crittals and chief engineer at Maywick. At C. Walters & Son, Mr Keith Walmsley has been appointed finance director having joined the group in October 1976 from Edbro where he was chief accountant. Mr George Land has been appointed production director of Sydney Smith Dennis and has been with the group since 1961.

★

Mr John C. G. Stancliffe, a director of Mercury International Group and Warburg Securities, has joined the board of GENERAL CONSOLIDATED INVESTMENT TRUST.

★

Mr Gareth Lewis has been appointed a non-executive director of JULIANA'S HOLDINGS. He is chief executive of Berkeley Insurance.

★

To strengthen its North American operations the Bradstock Group has purchased a controlling interest in a company specialising in non-marine surplus lines business. This company has been renamed BRADSTOCK CARONDENE and the directors are Mr David A. Mocatta, Mr Edward V. Close-Smith, Mr Alan P. Angel, Mr Michael R. Cole, Mr David F. Bradstock, Mr Robin E. G. Gibson and Mr Peter W. J. Cresswell.

★

A former cadet and subsequently a master of Lyle Shipping fleet, Mr Peter Cooney, has been appointed managing director of ACOMARIT MARITIME SERVICES (UK). the Swiss-owned ship management company last month acquired the share capital of Glasgow-based Lyle Ship Management. Mr Cooney left the Lyle Shipping Group in 1985 to take up a ship manager appointment in the Middle East. He returns to take charge of Acomarit UK's Glasgow and London offices under the chairmanship of Mr E. C. Ranson.

★

JASMIN ELECTRONICS, Leicester, has appointed Mr Nicholas Bark and Mr Keith Meadows as non-executive directors. Mr Bark was president of Loral International Inc and managing director of Control Data and Perkin Elmer Data Systems. Mr Meadows was general manager and managing director of DPCE Holdings and managing director of Marcol Computer Services.

★

Mr Howard James Cheetham has been appointed a director of LESLIE AND GODWIN REINSURANCE. He was with E. W. Payne as an associate director.

★

Mr Donald Gregory of Hillier Parker has been elected chairman of the BOND STREET ASSOCIATION and Mrs Susan Benjamin of Halcyon Days, vice-chairman.

★

ALEXANDERS LAING & CRUICKSHANK HOLDINGS, international securities division of Mercantile House Holdings, has appointed Mrs Kay Adams to its investment management division, Laing & Cruickshank Investment Management Services, as operations director.

Changes at Tricentrol

TRICENTROL has appointed Mr Paul M. Smith and Mr George Miller as directors. Mr Smith joined in 1975 and was appointed to his present post as general counsel and secretary in 1986. Prior to this, he was legal and financial director of Tricentrol Oil Corporation, the principal operating subsidiary, responsible for the group's worldwide exploration and production activities outside North America. Mr Miller was a director of Morgan Grenfell and Co with particular responsibility for the energy industry. Mr Nigel Turnbull and Mr William Grassick are leaving Tricentrol. Mr Turnbull becomes finance director of the Rank Organisation as reported above. Mr Grasswick will be leaving the board following his appointment as chairman of Pict Petroleum. Direct responsibility for Tricentrol's long-term financing requirements will be taken by the chairman, Mr James Longcroft.

CONTRACTS

£13m orders for Babcock

Some £10m worth of high technology orders ranging from automated guided vehicles and car welding lines to aluminium foil rolling mills have been won by the FATA EUROPEAN GROUP, Babcock International's Italian-based subsidiary. Hunter Engineering Company, FATA's Californian-based operation specialising in the design and construction of aluminium rolling sheet and foil equipment, has received an order worth £5.6m from Aluminium Company of America (ALCOA), for an aluminium continuous coating line.

In the Far East, following the successful start-up of a body assembly line delivered by the welding division of FATA Industriale to Daewoo, a £2.1m order has been placed by the South Korean manufacturer for an extension to the line. Proposals for the introduction of a further new car model line are also being discussed with FATA.

FATA Industriale's AGV division has won a £1.9m order from the Czechoslovakian trade organisation Technopol to supply AZNP Skoda with an automated guided vehicle (AGV) system to assemble the entire engine unit of a new car. The contract calls for supply of 44 AGV's plus assembly. The FATA equipment is for a new engine to power a new front-drive Skoda car to be produced at the Mlada Holeslav plant in 1988.

★

CLAUDIUS PETERS, a West German arm of Babcock International, has won a contract worth some £3.5m to build three coal grinding plants for Emscher Auferteitung of Duisburg, who are a part of Thyssen Schachtbau. Claudius Peters will supply, assemble and commission the plants, which are claimed to be among the largest in the world for pulverising fuel for injection into blast furnaces. The plants will handle up to 55 tons per hour and will feed the blast furnaces of Thyssen Stahl plants in Duisburg in the Ruhr area. This contract will increase the coal dust production of Emscher Aufbereitung to more than 1m tones per annum. Start-up of the main plant and pulverised fuel production is scheduled for the end of this year.

★

RUSH & TOMPKINS' Westbury office has been awarded a £3.8m building contract by the Wessex Regional Health Authority. The 104 week contract is due to commence soon and involves the construction of a four-storey geriatric and ESMI unit at Poole General Hospital. The unit, which is to be linked to the main hospital, will provide four 28 patient wards, comprising a combination of single rooms and six-bed bays, together with ancillary and associated facilities.

★

HENRY BOOT has started work on the construction of £980,000 neighbourhood service offices in Mount Road, Gorton, Manchester, for Satman Developments (No. 31) and Manchester City Council. A 383,000 cu ft cold store is to be built by Henry Boot on a design/build basis for Everest Frozen Foods in Wombourne, West Midlands. It will link into an existing cold store and will be completed in January 1988.

★

A £4.9m divisional police station is to be built by NORWEST HOLST in Stoke Newington, North London. Situated on the site of the existing station, the new structure will also occupy an adjacent site. The building features twin three-storey brick elements linked by an atrium reception area. Within the atrium area is the lift and stair access to the upper floors. Externally, the brick walling is divided by a rendered band course which is formed by extending the floor slabs to the face of the building. At ground floor the edge of the first-floor slab is shaped into a arch and is covered in reconstituted stone render.

★

ELLIOTT MEDWAY CONSTRUCTION, part of Falcon Industries, has received orders from the Central Electricity Generating Board, worth over £8m for buildings at Sizewell B power station. The accommodation to be provided comprises amenity building, bedroom blocks, offices, document store, canteen, laboratory, first aid centre, fire station, ablution blocks, induction centre and energy information centre. Work will take 11 months, starting this autumn.

★

GEC ELECTRICAL PROJECTS has won a contract worth £55)000. The order from J. and J. Fee of Halifax, is for the installation, testing and commissioning of mechanical and electrical services to The Pavilion, a new eight-level office block, situated in the Isle of Dogs development area. Six levels of the building will be taken up by office accommodation, a car park will be in the basement and an entertainment suite will make up the eighth level. GEC Electrical Projects will be installing the air conditioning, ventilation, heating requirements, hot and cold water supply, together with all sanitary ware.

£2m order for oxygen plant

SULZER (UK), of Farnborough, has won a £2m contract from BOC Cryoplants to supply what is thought to be the largest oxygen compressor train in Europe. The equipment will be used to compress oxygen from BOC's air separation plant at Scunthorpe, Lincolnshire, so that it can be transmitted through pipelines to British Steel's plant a mile or so away. The compressor train will have a suction capacity of 53,000 standard Cu metres an hour and require 7.5 MW of power. The system will compress oxygen in two stages, involving both a low pressure machine to raise pressure to 9.5 bars, followed by a high pressure machine to compress the oxygen to 43 bars. The train also includes a gearbox, four interstage coolers and a lube oil system. The compressor train is scheduled for delivery in June 1988.

★

Contracts worth £3.7m have been awarded to KENDRICK CONSTRUCTION. The orders include an energy centre at Birmingham International Convention Centre, Broad Street, Birmingham, for Douglas Turner J.V. Management (£1.1m); a very sheltered wardens scheme, Hasbury Road, Bartley Green, Birmingham, for City of Birmingham (£1.4m); improvements to 100 homes, area 17, phase 1, Moxley/Margaret for Walsall Metropolitan Borough (£1m); and brickwork repairs to ward blocks at Queen Elizabeth Hospital for Central Birmingham Health Authority (£130,000).

★

DOW-MAC CONCRETE, a member of the Norcros group, has gained four contracts together worth £3.4m. Two involve car parks, both from Taylor Woodrow, for a multistorey car park adjoining a Morrison Supermarket in Blackburn, and for a single-deck car park at the new Asda/MFI group headquarters in Leeds. Dow-Mac pre-tensioned bridge beams and pre-cast reinforced concrete crosshead beams are being supplied to Edmund Nuttall for a new pier and hammerhead jetty for the Royal Navy at Crombie on the Firth of Forth. The contract is worth £1.6m. A £300,000 order has come from Redpath Dorman Long for a suspended floor and loading dock at the News International's printing works in Wapping.

★

HORSELEY BRIDGE, a business unit of NEI Thompson, has been awarded the main steelwork contract for hall and amenity block at the National Exhibition Centre in Birmingham. The contract for hall and amenity block comprise the supply and erection of 1,800 tonnes of structural steelwork, and the erection of the roof steelwork which is being supplied by another contractor. The main structure will consist of rolled hollow section columns and trusses with tubular intermediate trusses. The total weight involved is about 3,000 tonnes. When completed the hall will be the largest at the NEC, with the amenity block offering facilities which do not currently exist on the site.

★

Continued expansion of the BRS Truck Rental fleet to more than 2,300 vehicles has seen the company order MAN and VOLKSWAGEN commercial vehicles worth £3.8m. The deal, for more than 200 vehicles, includes 118 MAN 7.5-tonne rigids, the largest single UK contract for this model. Also included are Volkswagen LT vans and chassis cabs, and MAN 16-ton trucks and 38-tonne tractors.

★

A contract worth over £2.5m per annum has been awarded to MOTOR PANELS at Wigan for the supply of cabs to Komatsu UK. The cabs for the wheeled loader and excavator models have been the subject of a major design rationalisation programme implemented by Motor Panels.

★

Two hospital cleaning contracts, worth over £1.1m, have been awarded to ISC EXCLUSIVE HEALTH CARE SERVICES. Both are for terms of three years and involve the employment of 140 staff. The largest contract, with South Tees Health Authority, is for the cleaning of the 420-bed South Cleveland Hospital. The second contract is with Hillingdon Health Authority for the cleaning of St John's Hospital.

UK clutches for US motorcycles

BBA Group company AUTOMOTIVE PRODUCTS has secured a £9m contract to supply multi-plate wet clutches for the entire range of Harley-Davidson motorcycles in the US. AP already supplies clutches for 1340 cc FL Harley models, but the 1000 cc XL range has been supplied by the Japanese. After a decision by Harley-Davidson to buy all its clutches from one source, AP has won the battle with its Japanese competitor to become sole supplier from the middle of next year. When the FL models were first fitted with AP clutches the motorcycling press in America reported a transformation in the handling characteristics of the machine, but the new five-year contract has demanded a further refinement of the clutches, plus installation of an additional computer-controlled production unit at AP's Leamington Spa plant.

★

HONEYWELL BULL has been awarded a £7.5m contract for 40 DPS6 minicomputers, 500 terminals, and a range of application software to form the basis for a message-handling system (known as CUDS or Common User Data Services) to be installed for the Royal Air Force in operational stations throughout the UK. The system will be one of five sub-systems forming the RAF's multi-million pound UNITER STAGE 2 project for which GEC is the prime contractor. Application software for the project will be supplied by Systems Designers Scientific, who will bring to the CUDS project experience in message switching and communications systems, and the terminals will come from Lynwood Scientific Developments, both companies acting under sub-contracts from Honeywell Bull.

★

CAPPER PIPE SERVICE COMPANY (PBW), Widnes, has received an order from Jacobs International of Dublin, value £2m, for installation of equipment, pipework fabrication and erection on a new plant at Speke, Liverpool.

★

A contract worth £1.25m has been awarded to Bicester-based HBM by Thorn EMI Electronics, Defence Systems Division, for precision accelerometer sensors. Designed and developed by HBM in conjunction with Thorn EMI over the past three years, the accelerometers are for use in a new, RAF multi-function bomb fuse.

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MANAGEMENT

EDITED BY CHRISTOPHER LORENZ

How Glaxo moved into the fast lane

Christopher Lorenz examines the process which has given the drugs company a competitive edge in the world market

Paul Girolami, Glaxo's chairman (top) forged an unusually effective marriage between technical development (headed by David Jack, right) and commercial exploitation, under Bernard Taylor (left). One of the many keys to Zantac's success was the very early construction of production plant

GLAXO'S STELLAR climb into the world industrial super league with Zantac, its anti-ulcer wonder-drug, is fast becoming one of the most well-worn corporate hero stories of the 1980s.

The upstart British company's five-year leap from 25th to its current seventh in the global pharmaceutical rankings, as it doubled sales and multiplied profits sevenfold, is generally credited to a brilliant marriage of scientific discovery with innovative marketing.

Glaxo's double-quick construction of a comprehensive international distribution network, through unconventional sales partnerships in America and Japan, has drawn the particular admiration of its competitors. So has its up-market pricing policy, which has helped power Zantac up the value charts to become the world's best-selling prescription drug.

What is less well understood is that Zantac could never have destroyed the five-year market lead held by its arch-rival, Tagamet, made by American giant Smith Kline French, if Glaxo had not also made nonsense of one of the most firmly-held tenets of the pharmaceutical industry: that new drugs take between seven and 10 years to develop.

Whereas development cycles in most other industries have been shortening over the past decade under pressure from the "product race," various phases of drug development have been extended by ever-tightening official regulation. Governments are much tougher nowadays in prescribing the sort of toxicity tests, clinical trials and other procedures which have to be folowed before they approve the sale of a new drug.

This, and the inefficiency of many regulatory authorities in handling the extra work, has certainly made the development process as a whole more protracted: 20 years ago it was possible to get a new drug from the research bench on to the market in less than three years. Today, development and approval together can easily eat up half the theoretically lucrative period during which new drugs are protected by patent (20 years in most countries).

Glaxo has limited this stretching-out process by running many of the development phases in parallel, rather than in their traditional sequence. "If we have faith in a particular compound, we throw every possible resource at it," says Terry Eaves, the company's development director. "We start a lot of clocks ticking simultaneously."

The two most time-consuming phases of drug development, each of which has to take at least three years because of government controls, are toxicity testing on animals, and clinical tests on humans. Wherever regulations permit, Glaxo therefore runs tests in parallel, both within each phase and between them (no human testing at all is allowed until several animal "milestones" have been passed).

The company also starts to build mass production facilities three or more years before a drug is approved, so output can then be pushed up rapidly. "Some companies wait until approval before they even make the decision to build," says Richard Sykes, chief of Glaxo Group Research.

The financial risks of Glaxo's tactics are high — millions of pounds can be lost if a drug development has to be stopped, or if the production process needs to be changed in mid-train — but the approach is entirely in accordance with regulatory controls.

The degree of parallelism is limited by just three things, says Bernard Taylor, Glaxo's chief executive: adherence to the rules; the organisation's ability to work in this demanding way; and "the money you're prepared to risk."

Glaxo has helped keep the gamble within bounds by being unusually tough on the number of drugs it allows to go from research into early development, and from there into full development. "We don't just look for marginal therapeutic and competitive advantages, but major ones," says Eaves. "And we're a bit more searching and responsive to early findings than most companies." Any compound which fails the criteria is dropped, even if it is perfectly marketable.

With Zantac, Glaxo also extended the principle of parallelism from technical development in the UK to the costly clinical trials which have to be carried out in each major market: the industry's standard approach is still to take each country in turn, or at least to gain approval in a couple of prime markets before moving on to the next ones.

As a result of Glaxo's twin breach of the industry's etiquette, Zantac took only five years and four months to develop from the first synthesis of the "ranitidine" molecule (its generic name) to its initial market launch in the UK and Italy in November 1981, five years after Tagamet first went on the market. From then, it took just three years for Zantac to be pushed out onto every major market, including the US and Japan, compared with a standard of eight years or more.

Using the same streamlined tactics, Glaxo had already embarked on the development of a version of Zantac which could be taken as a single daily dose; market research had shown that this would be even more popular than the original twice-a-day regimen.

The new dosage was launched on the US market in March 1986, a few weeks ahead of once-daily Tagamet. By careful forethought, close international co-ordination, and tight timing, Glaxo had completely closed the five-year gap. As Bernard Taylor says, "that really is first-class exploitation."

Glaxo's remarkably effective use of parallelism in both technical development and commercial exploitation only started to come together in the late 1970s, with Zantac. On the marketing side, Paul Girolami, then finance director, began laying the ground for the drug's launch by building up a strong international network of subsidiaries and joint ventures in the US, Japan and continental Europe. (In 1980 he became chief executive, and in 1985 chairman.)

The other half of the equation was forged in 1978, when David Jack became group research director; he had previously run the smaller of Glaxo's two research and development units.

Jack had pioneered the principle of parallelism in development more than 10 years earlier. He used it, for instance, in the fast development of an innovative anti-asthma drug called Ventolin which Glaxo launched in 1969. But without much of an international organisation in those days, especially in the prime drugs markets of the US, continental Europe and Japan, there were problems in getting the clinical work done overseas.

This, and the country-by-country distribution approach which the company followed, meant it took as long as 12 years for Ventolin to reach the US market. Though it was extremely successful in the UK and in Commonwealth countries, the long delay in attacking prime markets allowed competitors to catch up.

"It was an enormous time gap, and should not have occurred," comments Taylor. "Ventolin should have been the world's first pharmaceutical to sell $1bn a year." Instead, Zantac now is, and Ventolin is pottering along behind at a respectable £250m a year.

This salutary experience helped reinforce Girolami's stress on the need for powerful product launches, and on the importance of having a strong presence in all the world's main markets—not just in the form of distribution channels, but also the on-site capability to work with leading specialists and hospitals in clinical development. In addition, Glaxo is now in the process of putting fully-fledged research units into Italy and the US.

Girolami and Taylor have also placed considerable emphasis on developing the role of "international product managers." These not only help co-ordinate the marketing side of the organisation, but are one of the main links with research and development. "They have an influence right back at the research bench," says Taylor.

With a small tightly-knit team, each manager forms an early picture of the varying demands of different international markets, and feeds it back into R&D. "Their input tends to change the way the drug is formulated, and how clinical development is done," says Taylor.

For an anti-migraine compound which Glaxo plans to launch in the early 1990s, an international product manager was appointed as early as 1985. Reports Taylor: "He has already been looking not only at the competitive situation, but also at what migraine means to doctors in different countries, at preferred methods of medication, and at how to get migraine sufferers to go to the doctor — many don't think it's worth it."

The company is following the same all-round tactics with the 10 drugs it now has in full-scale development. "We are applying parallelism to each of them — we hope to mimic the Zantac approach," says Richard Sykes, who is expected shortly to succeed Jack, who has reached retirement age.

Extending parallelism from one drug at a time, as with Zantac, to several at once is a daunting organisational challenge: applying parallelism in parallel is far from easy.

"But I believe we can do it —enormous resources are being ploughed in," says Sykes. Since 1978 the number of Glaxo's development staff has doubled to over 3,000, and R&D spending has increased over sevenfold to this year's £155m; in 1986 R&D represented almost 8 per cent of the group's £1.4bn revenues. During the next five years another 1,500 R&D staff will be recruited, and spending is scheduled to more than double.

But will Glaxo's hectic growth, and its increasingly complex international spread, destroy the advantages of small size, informal communications and entrepreneurial culture which seem to account for much of the Zantac success?

"There's far less debate and far more action at Glaxo than in most companies," confirms development director Eaves, who worked for Swiss, West German and US companies before moving to Glaxo. "We react to R&D findings long before reports are written and circulated. In other companies there's tremendous inertia in the system—people debate things for months and months."

When it comes to cancelling projects, Eaves claims that "in Glaxo, unlike some other companies, no one's going to get you if a project fails—there's no retribution."

Both Eaves and Sykes are confident that this atmosphere will survive. They also expect to be able to co-ordinate the company's growing international R&D teams without running into the rivalry which besets many multinationals with development facilities on both sides of the Atlantic, even sometimes to the extent of having conflicting development programmes on the same drug.

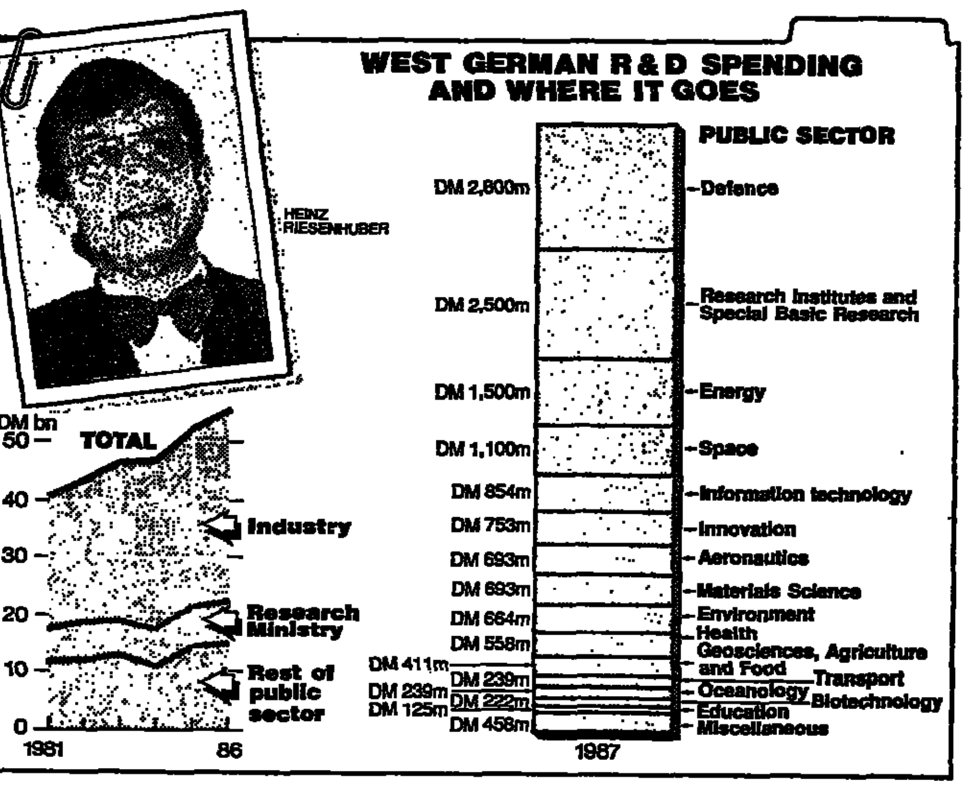
All these factors are impediments to competitors which would dearly like to emulate Glaxo's streamlined approach to development. "We're not held back by history," says Sykes. "Zantac was our first really international product, whereas it's harder for some of the German and Swiss companies, which have subsidiaries in the US with strong-willed people all wanting to do things their own way, and with considerable communication problems."

With Glaxo's very tight control, and the whole development organisation reporting to a single research director—a surprisingly unusual arrangement for a multinational drugs company—Sykes says "we're still able to drive projects ahead in an expeditious manner. Our colleagues abroad can't say 'bugger off, we won't do it'."

Peter Woods, head of pharmaceutical research at Barclays de Zoete Wedd, the UK securities house, seems equally optimistic. "I think Glaxo will continue to be able to move fast because of the quality of its teams and its rigorous concentration on drugs with very high potential," he says. "Yes, they will be able to cope."

This is the final article in this series. Previous articles appeared on June 17, 19, 26, and July 3 and 10.

TECHNOLOGY



Tough autumn ahead for Bonn's science don

David Marsh explains the objectives of, and problems faced by, Heinz Riesenhuber, West Germany's Research Minister

HEINZ Riesenhuber, the West German Research Minister, is a man with a technocratic job, who looks like a don and talks like a philosopher.

The minister likes to wear bow-ties and takes periodic breaks for reflection in a Benedictine monastery.

He is also a family man. Shortly before Christmas last year, when EC research ministers were just on the point of being summoned to Brussels for another meeting on the Community's — only now resolved—technology support programme, he commented to journalists that he would rather be on his knees crawling under the Christmas tree with his four children.

Riesenhuber, 51, has been in his post for nearly five years, since the advent of the centre-right Bonn coalition in October 1982.

He can claim some success in raising the profile of West German science and technology and putting its funding on to a more market-oriented basis.

But he faces a tough autumn in Bonn. Further Government wrangling is expected over scaling-down spending on West Germany's growing space programme.

Riesenhuber is a strong believer in combined European space efforts. But, pressed by financial restraints, he will probably have to acquiesce in a postponement of some of Europe's ambitious space plans at a ministerial meeting of the European Space Agency in November.

This is likely to hit above all the French-led space-going aircraft Hermes, in which West Germany is scheduled to take a 30 per cent stake.

Riesenhuber says the Government needs a new "concept" for space. But he could lose his present hold over the space programme diminishing if a plan, backed above all by Hans-Dietrich Genscher, the Foreign Minister, to set up a German national space agency is agreed this autumn.

Additionally, Riesenhuber, who is formally responsible for West German atomic research, is feeling the brunt of West German nuclear opposition.

The DM 6.6bn fast breeder nuclear reactor at Kalkar on the Lower Rhine, now nearly completed after a decade of construction mainly financed by the Research Ministry, looks increasingly unlikely to go on stream for regulatory and political reasons.

The minister points out, somewhat defensively, that the electricity industry has lately been asked to dig deeper into its pocket for the project. He firmly rules out any further Government fast breeder funding.

Riesenhuber crossed over from academe to industry at the relatively youthful (by German standards) age of 30. A chemist by training, he joined the Metallgesellschaft chemicals and metals group and ended up as managing director of one of its offshoots, Synthomer Chemie—a post he held from 1971 until 1982. On the way, he picked up several patents in the nuclear chemistry and metals fields. He went into parliament in 1976.

Minister Riesenhuber sees his mission as two-fold. One part of his job is to provide the expertise and funds for scientific projects not yet at a marketable stage — including space—and which industry cannot shoulder on its own. The other is to reduce Government funding for more mature projects which could and should be left to private initiative.

He sees his role partly as a catalyst. "The Research Minister has to listen, examine the circumstances of projects, and then give signals."

Riesenhuber has managed to shift the focus of his ministry towards supporting fundamental research—now making up 36 per cent of his budget against 26 per cent in 1982—rather than simply handing out cash for industry.

He believes that industry will make the best use of research and devlopment (R&D) funds if it is spending its own money. "People must depend on themselves," he says.

He is pleased that industry in West Germany put up around 60 per cent of the country's total R&D spending of DM 55bn last year. The industry share is lower than the roughly 65 per cent in Japan, but well above the levels in the US (49 per cent), Britain and France (both with around 42 per cent).

Riesenhuber has also brought in a range of indirect industry aid measures geared above all to helping smaller businesses. One example has been a scheme to pay for extra research staff taken on by companies—which particularly helps smaller businesses.

Stung by criticism that the Research Ministry has been largely geared to subsidising its "clientele" of larger companies, Riesenhuber calculates that his ministry's support for larger groups has fallen by 21 per cent since 1983, while help for small firms has gone up 19 per cent.

"The Government should set the overall (science policy) framework. But the only possibility for us to master an ever more complex world is through decentralised decision-making," he says.

For instance, over the European Eureka technology programme—in which West German companies are participating in nearly one-third of the 109 projects—the Government has undertaken to put up about DM 500m over the next eight years. "The less money (from the Government) the better," says Riesenhuber.

With West German budget spending facing a tight squeeze, he has just had to swallow an overdose of his own free-market medicine. As a result of budgetary cuts for next year forced by Gerhard Stoltenberg, the Finance Minister, Research Ministry spending will grow only marginally next year to DM 7.6bn, after being cut to DM 7.3bn this year.

Riesenhuber made no secret of his wishes for more money.

The outcome is likely to cut amounts available for space research. Emphasising the country's bid to play a stronger role in space after years of lagging well behind France in the European space trail, West German spending in this area has grown rapidly. Accounting for DM 1.1bn in the ministry's budget this year, it now makes up 15 per cent of Riesenhuber's spending, against 10 per cent when he took over the job in 1982.

In other shifts in spending priorities since he took over, he has also increased Research Ministry budgets on information and manufacturing technology, environment technology and health research. Amounts spent on transport, fossil energy sources and nuclear energy have been cut sharply.

The minister says he is "confident" that Europe will agree to go ahead with the three-fold plan to build the Columbus orbiting module (in which West Germany has the leading stake, 38 per cent), and a new heavy-duty Ariane-5 rocket as well as Hermes. "But I do not underestimate the problems," he states.

One of his main themes is that research efforts these days must be co-ordinated internationally. He speaks optimistically of bringing the next big international nuclear fusion project to West Germany.

Over the question of linking British and West German ideas for a 21st century generation of space aeroplanes—the Hotol and Saenger concepts respectively—Riesenhuber says he "does not exclude" the idea—but makes clear no decision needs to be made for several years.

Running through his philosophy is, talk of "winning the hearts and spirits of people for technology."

One small pointer has been the extraordinary public interest in the ministry's recruiting campaign last year for future German space missions, which attracted more than 1,700 applications. Another is the fact that German physicists—three in the past two years—have started to win Nobel prizes again after a long spell on the international sidelines.

That might be evidence that science can play a role, as Riesenhuber puts it, in "binding people together" in an uncertain world. But, practical man that he is, he will want a lot more evidence before he is certain.

WORTH WATCHING

Edited by Geoffrey Charlish

Film recording becomes kids' stuff

IN THE autumn, Fisher-Price, the US toy company plans to introduce a video camcorder (camera-recorder) which will cost about $150 in the US and will be able to record 11 minutes of black and white pictures on an ordinary C90 audio cassette.

So the days of just "dressing up" are gone. Now the kids can televise the whole thing, plug the camcorder into the family TV set and see themselves on-screen.

Known as the PXL 2000, the camcorder is largely automatic and features "point and shoot" operation. It weighs only 2lb and uses six AA size batteries that last for about four hours. Fisher-Price is aiming its camcorder sales drive at anyone over eight years old.

New twist to variable filtering

PARKMAN GROUP Professional Services of Liverpool in the UK is offering a variable filter consisting of a long helical spring which can be minutely opened and closed to vary the size of particles to be filtered out.

Fluid passes through the spring "wall" from the outside and into the centre of the spring through the long, tiny helical gap produced when the spring is slightly extended. The gap traps particles above a certain size.

The idea is not new, but according to Parkman, previous designs have not been able to give a consistent opening of the spring coils and, therefore, the size of particle stopped.

The company's new design, which involves careful and undisclosed processing of the spring, has overcome such problems, it is claimed. The filter, called VSP, is available in various sizes and materials and has the advantage that it can be cleaned by back-washing without removal.

Portable kidney dialysis machine

A FRENCH COMPANY, Sante Technique et Recherche (STR) of Marseilles, has developed a kidney dialysis machine that will fit into a holdall, making renal failure patients less dependent on the conventional large, fixed machine at home or in hospital.

The system has two parts—a pump and monitoring unit which plugs into the electrical mains, and a disposable pack. The patient simply connects up the tubes, adds the chemical supplied to the pack and switches on. The system controls blood pressure, detects and traps air, spots blood leaks and checks on colour and conductivity.

A financial wizard always at hand

A FINANCIAL planning expert system was recently demonstrated in prototype form by Logica, the UK systems and software house and is designed for use by non-specialist staff in building societies, banks and insurance companies.

An expert system attempts to encapsulate in a computer program the knowledge of human experts, for use by non-specialists. In this case, the system can be used to guide a prospective client through a fact-finding and analysis session covering insurance cover needs, pensions and retirement cover, inheritance and tax planning, school fees and investments.

The system will then compare the client's needs with current provisions and give quotations. It can also indulge in "what if" exercises to explore different courses of action.

GM insight into plant integration

ELECTRONIC DATA Systems (EDS), the big data services and communications wing of General Motors, has set up a working replica of a computer-integrated "factory of the future" at Russelsheim in West Germany.

Although the "factory" will simply make a pen for visitors (in four minutes, with their name engraved on it), they will be able to see the computer-linking of all phases of production, including design, materials supply, manufacture, distribution and marketing.

Plant-wide communications will take place over MAP (Manufacturing Automation Protocol) and TOP (Technical Office Protocol) networks on which 10 different types of computer hardware are integrated. EDS believes that its project performance for General Motors and its large scale systems integration experience makes Russelsheim a unique demonstration.

CONTACTS: Fisher-Price: US, (716) 687 3422. Parkman: UK, 051 236 6066. STR: France, 91 031154. Logica: London, 637 9111. EDS: London, 499 5668.

Pressure grows on the edge of towns

THE GOVERNMENT is coming under increasing pressure to define more closely the planning criteria for major shopping developments outside or on the edge of big towns.

This pressure comes from both the public and private sectors; it embraces bishops and property developers and city planners, but it is unco-ordinated.

It ranges from arguments to the effect that the inner cities are in peril because investment is being shifted away from them to a simple call for removal of confusion. Calls on the Government come from across the party lines.

The focus of the argument is on major regional shopping centres. The Oxford Institute of Retail Management has calculated that by May 1987 there were in the pipeline plans for new centres, each of over 400,000 sq ft, totalling 36.78m sq ft. This is the very rough equivalent of 250 large Marks and Spencer stores standing end to end.

Many of these will not come to fruition, and, on the calculations of Hillier Parker, the chartered surveyors, the pace at which plans were being drawn up and announced slackened in the second half of 1986.

But, according to Southampton City Council, the phenomenon is "what a growing number of local authorities see as the most serious post-war threat to the economical and social stability of many of Britain's biggest towns and cities."

And it has been Southampton City Council which has been trying to mobilise a national campaign against them. This campaign, launched with some fanfare in March, is the clearest overt attempt to mobilise a national lobby to call a halt to major out-of-town centres until their likely impact has been properly assessed.

GOVERNMENT planning policy carries a presumption in favour of development. But it does not seek to use planning to influence competition. Out-of-town developments are examined in the context of their effect on the viability and vitality of a nearby town centre as a whole. The Government has set its face against developments in the Green Belt. The Department of Environment has to be informed of all planning applications for developments of more than 250,000 square feet.

Since then, Malcolm Davies has been travelling around the country for Southampton City Council trying to prompt regional campaigns which would operate under a national umbrella, trying to bring together the disparate voices of protest.

He claims support, at least in sentiment if not in finance, from private sector companies like Heron International, Ladbroke Group, House of Fraser, Boots, Nurdin and Peacock, and Next, from institutions like the Norwich Union and the Woolwich Building Society and from the Bishop of Manchester.

In the public sector, Mr Davies counts on support from the South East Regional Planning Conference, which seeks to co-ordinate planning policy in the south-east and from South East Economic Development Strategy Seeds which brings together the local authorities in Basildon, Brighton, Crawley, Harlow, Oxford and Stevenage.

Indeed, this weeks Seeds published a retailing study* which offered a strategy "to control strictly the out-of-town movement and to improve existing urban areas. In other words, to reconstitute the town centres as just that: town centres rather than merely retail centres which simply open and close during office hours."

At the same time, the London Planning Advisory Committee, made up of 33 London boroughs and set up to provide planning guidance for the London region as a whole, would like the Environment Secretary to call in, that is to set up public enquiries about, the applications in the area, notably those around the M25.

What LPAC has not done, and will not do until its own studies are complete, is to settle a policy as such. The political debate is likely to start in the autumn. It would like a base of policy to be established and the planning applications considered in the light of that base.

That this activity is taking place in the south-east is no surprise. The local authorities of the Manchester area and the West Midlands, having commissioned studies which have pointed to potential damage to town centres from out-of-town developments, are now engaged in planning inquiries which are likely to settle the fate of proposals for their areas.

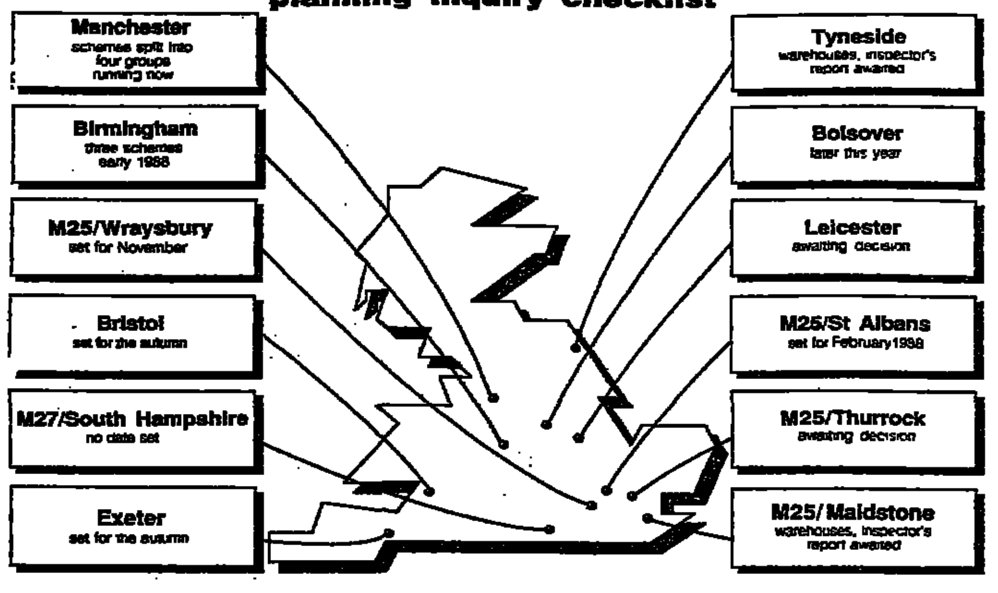
At a national level there is a committee of the National Economic Development Council which has been looking at the future of the High Street. Its studies are leading to the conclusion, but have certainly not reached it, that there will be room for a relatively small number of new regional shopping centres in selected areas.

So far the main running against out-of-town developments has been made in the public sector. At various times and in different contexts, companies like Tesco, the John Lewis Partnership and Ladbroke Group, and institutions like the Norwich Union, have spoken out against unfettered retail expansion outside town centres, but there is not and cannot be a collective private sector view.

It is difficult to match up the need of retailers to move to where they think the trade will be available with the investment interests of institutions and developers holding stakes in the town centres. That said, there are simmerings which, when the Government's post-election treatment of inner city problems has settled down, could result in the development of a private sector organisation to contest out-of-town policy.

** Trade Winds by Dr J. R. Montgomery; South East Economic Development Strategy, Daneshill House, Danestrete, Stevenage; July 1987.*

Department of Environment planning inquiry checklist



Falling back on some differing experiences

The great difficulty about the controversy over out-of-town shopping developments is the lack of empirical evidence on their likely impact. It has thus been necessary for opponents to fall back on the US experience, where some town centres have simply emptied out to the suburbs and to quote the restrictions in places like France and Germany.

This is why the Tyneside experience with the expanding MetroCentre at Gateshead and the development of a retail warehouse park at Team Valley is significant in the British context. It is here that the phenomenon is being worked out on the ground.

Gordon Allanson, who runs the Capital and Counties-Newcastle City Council Eldon Square shopping centre in the centre of Newcastle, said that there appeared to be little change in shopping habits since MetroCentre opened last year.

The major stores have been trading on average at between 3 and 4 per cent under what they had thought would be their takings. But their revenue over the lastyear has still risen in absolute terms. And the centre itself opens news shops in October.

At the MetroCentre, the Oxford Institute of Retail Management has just completed its second survey of customers—the first was in November. It found that the mean stay at the complex was two hours, with 41 per cent of the respondents staying between 30 and 90 minutes.

Nearly 80 per cent of the respondents travelled by car and only 16 per cent by bus. Those travelling by car spent an average of £39.69, those coming by bus £26.03. Those who came from the main catchment area of MetroCentre—within 20 minutes' drive—spent an average £32.40, while those who had come from further away spent £44.90. In both cases these averages are lower than the spending of last November. MetroCentre is not a place to pop in for a packet of tissues.

International Property

Company Notices

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Legal Notices

Legal Notices

Art Galleries

Clubs

THE ARTS

Arts Week

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17	18	19	20	21	22	23

Exhibitions

LONDON

The Tate Gallery. Turner in the new Clore Gallery: The Turner Bequest, which amounts to nearly 300 oil paintings, finished and unfinished, and a further 19,000 or so watercolours and drawings, has been a source of controversy and dissension ever since it came into the nation's hands more than 130 years ago. Turner had always wished for a gallery to himself which would show all aspects of his work. Whether he would have approved of James Stirling's extension to the Tate as a suitable setting is a nice question. The larger paintings may be hung too low for one who lived in a more ostentatious age, and the tasteful oatmeal Stirling has decreed for the principal galleries is a far cry from the rich plum he is known to have preferred. The vulgar neo-deco of the entrance hall has little to recommend it. But eight rooms for paintings and one for watercolours give room enough, and with the three reserve galleries upstairs, every painting but the few in restoration or on loan is on the wall.

Burlington House, Picadilly: The Summer Exhibition of the Royal Academy has come round again, for the 219th time. Over 1,300 works have been chosen, nearly 300 fewer than last year, from an open submission of over 13,000 – paintings in all media, prints, drawings, sculpture and architectural design. For all its variety and quirkishness, the exhibition is strongly professional: the amateur work which once made it notorious has been more rigorously excluded in recent years and is now all but gone. With their privileged entry of six works apiece, the Academicians and Associates set the standard and the tone. With so big a show as this the visitor must follow his own taste and judgment and work quite hard to see everything properly, but such involvement brings its own rewards, from the work of Elizabeth Blackadder, Olwyn Bowey or Gus Cummins to that of Gillian Ayres, Joe Tilson or John Bellany. (Daily until August 23).

PARIS

Medieval Art in Paris: The Abbots of Cluny built their magnificent late gothic town house in the heart of the Latin Quarter on the blackened ruins of roman baths. Now a museum, it houses medieval works of art: goldsmiths' work, carved altar pieces, ivories, fabrics, with two English royal standards embroidered in gold on red velvet. In a rotunda of its own is a set of the Lady and the Unicorn mille fleurs tapestries – an allegory of the five senses, one of the masterpieces of medieval art. Musée de Cluny, Place Paul-Painleve, Metro Odeon. Closed Tuesdays and lunchtimes (433 56200).

Picasso Museum. The 17th century Hotel Sale, sumptuously restored, provides a fitting home for the world's largest collection of Picasso's work. It comprises 203 paintings, 158 sculptures and more than 3,000 drawings and engravings, 16 collages and 88 pieces of ceramics. It is completed by Picasso's own collection of paintings by his friends, such as Braque and Matisse, or by artists he admired, Renoir, Cezanne, Douanier Rousseau. Musee Picasso, Hotel Sale, 5 Rue Thorigny, Paris 3E (4271 2421). Closed on Tuesdays.

WEST GERMANY

Stuttgart, Staatsgalerie: British art in the 20th century organised by the Royal Academy of Arts. The work, covering 1910-70 is not well known in Germany. The extensive display of 250 pictures and sculptures from 70 artists includes works by Henry Moore, Ben Nicholson, Francis Bacon and Anthony Caro. It should help to revise the prejudice that British art is provincial and has not been represented in the avant garde. Ends Aug 9.

Kassel: Museum Fridericanum Orangerie: Documenta 8 'World exhibition of contemporary arts': paintings sculptures, theatre performances, architecture and design. The Documenta was founded in 1955 by local painter Arnold Bode with Henry Moore, Alexander Calder, Max Ernst and Joan Miro and is an important venue for modern art. This year director Manfred Schneckenburger presents the works of 150 artists, and for the first time open air sculptures which will be erected in Kassel's city centre. Artists exhibiting include Ian Hamilton Finlay, Javier Mariscal, Robert Morris, Mark Tansey, Alexander Melamid, Eric Fischl, Leon Golub, Robert Longo and Joseph Beuys. There is also a separate exhibition 'The Ideal Museum' where 12 architects present their ideas for Museum construction. Ends Sept 20.

Munich Lehnbachhaus: A retrospective by August Macke (1887-1914). In honour of the 100th anniversary of his birthday, Munich is displaying 138 paintings, 69 watercolours and 161 drawings. This will be the last stop of this touring exhibition. Born in Meschede, Macke studied in a new art form "Rheinische Expresionisten," before the First World War. In the spring of 1914 he made with Paul Klee and Louis Moillet his journey to Tunis, which became a landmark in art history. In the same year he was sent to the front in France, where he died, aged 27. Ends July 26.

Baden-Baden, Kunsthalle Lichtentaler Allee 8a: Henri de Toulouse-Lautrec. This exhibition displays graphic works from 1864 to 1901 with more than 360 posters and drawings (Ends Aug 30).

ITALY

Venice: Ca Pesaro: American Art in the 60s from the *Ludwig Museum* in Cologne: Works by 25 artists, from Liechtenstein to Rauschenberg, Oldenburg, *Rosenquist, Warhol,* Lewitt, Dine, Stella, Noland and Paolazzi. Ends Aug 2.

Venice: Ala Napoleonica and Museo Correr: 'Matisse and Italy': over 250 works by one of most poetic of 20th century French Painters. The exhibition includes paintings, drawings, and Matisse's entire output of sculpture (75 pieces in all), lent by private and public collections in France and America, and the Musée Matisse in Nice. Pierre Schneider, the organizer, has attempted to show how the works of Italian painters such as Mantegna, Pollaiolo, Giorgione and Veronese may have influenced Matisse. Until October 18.

Rome: Galleria Nazionale d'Arte Moderna (Viale Delle Belle Arti) 'La Stanze Della Memoria': views of interiors, portraits and conversation pieces from the Praz collection. The catalogue is almost more delectable than the exhibition itself: the delicate oils and watercolours get lost in the austere spaces of the gallery. The nostalgic title refers to a period (1776-1870) when the aristocracy of Europe were united as never before or since, a period for which Mario Praz, anglophile, literary critic, and Professor of English Literature at the University of Rome, had a passion. He recreated with accuracy and affection the atmosphere at his "Casa Della Vita." Palazzo Ricci in Via Giulia. Praz's passion for empie style began when still a child and he was still buying new pieces at the age of 85, a year before he died. It is sad that it proved impossible to buy Palazzo Ricci itself, so that these delightful objects could have been seen in their proper setting. Until September 6.

SPAIN

Madrid, Cy Twombly, American artist living in Rome since 1957 exhibits his Conjuntio Oppositorium: 43 paintings on cloth, 68 on canvas and 20 sculptures dated 1952-86. Palacio de Velazquez and Palacio de Cristal at the Betiro Park. Ends July 30.

Madrid, Fernando Botero. Colombian painter whose imaginative world is a poetic distortion of reality. 100 works on loan by private collectors, museums and artist's funds. Centro de Arte Reina Sofia, Santa Isabel 52. Ends Sept 6.

Madrid, Spanish Pavilion in the international exhibition in Paris, 1937. This show reproduces the space, contents and environment of Spain's contribution to the art world during the Civil War, a means of propaganda by the republican government in search of international aid and support. Some originals, some copies or reproductions include architecture of the pavilion by Lacasa and Sert, Picasso's studies on the Guernica and his Dama Oferente, North American Alexander Calder's Fountain of Mercury, Miro's 'El Payes Catalan en Revolution' and many more on loan by private collections and museums. Centro de Arte Reina Sofia, Santa Isabel 52. Ends Sept 15.

Madrid, Cubist Picasso, 1907–1920. 132 drawings and paintings inherited by Picasso's granddaughter Marina. Pierre Daix, an expert on Picasso's art, believes that this show contributes to illustrate the richness and variety of artist exploring cubism and highlights his 1907 notebook with sketches on Les Demoiselles d'Avignon. Fundacion Caja de Barcelona, Velazquez 63. Ends July 31.

NEW YORK

Museum of Modern Art: Berlinart 1961-87: An international assortment of 55 artists who worked in Berlin over the past 25 years includes David Hockney, Malcolm Morley and Georg Baselitz. Ends Sept 8.

Guggenheim: The first retrospective of Joan Miro since his death in 1983 includes more than 150 pieces, including paintings objects, collages, ceramics and works on paper that explore the artist's experimental media, methods and primitive inspirations. Ends Aug 23.

CHICAGO

Art Institute: 16th century Turkish art that flourished under "The Lawgiver" Sultan Suleyman is displayed in 210 objects including illustrated manuscripts, inlaid woodwork, rugs and the imperial wardrobe. Ends Sept 6.

WASHINGTON

National Gallery: 61 *Italian* master drawings by Leonardo, Michelangelo and Raphael among others travel for the first time from the Royal Collection in Windsor for this exhibit. Ends July 26.

TOKYO

Kandinsky: 100 works on loan from collections at museums in Munich, Paris, Moscow and New York. National Museum of Modern Art, Kitanomaru, near Takebashi Station. Ends Aug 9. Closed Mondays.

Theatre

NEW YORK

Fences (46th Street): August Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball player raising a family in an industrial city in the 1950s, trying to improve lot but dogged by his own failings. (221–1211).

All My Sons (John Golden): Richard Kiley has the gratifying part of Joe Keller in Arthur Miller's post-war moral tale of profits versus principle in a nicely dated production from the Long Wharf Theatre. (239 6200).

Cats (Winter Garden): Still a sellout. Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

Les Miserables (Broadway): Led by Colm Wilkinson repeating his West End role as Jean Valjean, the magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama, if not strict adherence to its original source. (239 6200).

Starlight Express (Gershwin): Those who saw the original at the Victoria in London will barely recognise its American incarnation: the skaters do not have to go round the whole theatre but do get good exercise in the spruced-up stage with new bridges and American scenery to distract from the hackneyed pop music and trumped-up silly plot. (586 6510).

Me and My Girl (Marquis): Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters; but it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably British. (947 0033).

LONDON

Antony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. Best of the rest at the NT is Michael Gambon giving his finest ever performance as Arthur Miller's doomed longshoreman in A View from the Bridge; Juliet Stevenson in a fine revival of Lorca's Yerma; and David Hare's production of King Lear, Hopkins, a massive gnarled oak, which gathers force and more friends as it continues in the repertoire (928 2252).

Macbeth (Barbican): Jonathan Pryce is a wolfish, blood-curdling Macbeth in Adrian Noble's exciting production for the RSC. It plays in repertoire with Jeremy Irons' inconclusively wimpish Richard II and a rough and tumble modern-dress Romeo and Juliet. Best in the RSC's Barbican Pit is Janet McTeer leading a fine ensemble in Worlds Apart by Cuban playwright José Triana.

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 379 6131/240 7200).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

WASHINGTON

The Immigrant: A Hamilton County Album (Arena): An immigrant in Texas at the turn of the century conveys the warmth and quirkiness of autobiography in Mark Harelik's play based on his grandfather's experiences. Ends Aug 16. (488 3300).

CHICAGO

Sunday in the Park with George (Goodman): Stephen Sondheim and James Lapine's Pulitzer Prize winning musical based on suppositions about the life of artist and Georges Seurat stars John Herrera as the artist and Paula Scrofano as his lover, Dot, directed by Michael Maggio. Ends Aug 16 (443 3800).

TOKYO

Les Misérables. After London and New York, now Tokyo and the Japanese version of the Tony-award winning musical. The cast was hand-picked by the creative team of producer Cameron Mackintosh (from an astounding 11,500 hopefuls), then trained for nine months in a special "ecole" and rehearsed by director John Caird. Costumes, set, sound, lighting have been supervised by the respective original designer flown in from London. Toho's Les Misérables is a triumph. The best production of a Western musical in Japan, it differs little from the original London version. Convincing and moving, this top-quality production shows what can be achieved with proper casting and training. Sponsored by the cosmetics company, Shiseido. Imperial Theatre, near Ginza. (201 7777).

Music

PARIS

Schola Antiqua from Madrid conducted by Ismael Fernandez de la Cuesta: Mozarab and Hispanic Liturgy (Mon, 8.30pm) Saint-Severin Church.

Jean-Effiam Bavouzet, piano: One Hour with Ravel (Tue, 7pm), Auditorium des Halles, Porte Saint-Eustache.

Students of the International Academy of Chamber Music Jean-Francois Paillard: Pierne, Ravel, Roussel, Villa-Lobos (Wed, 7pm). Concert-Rencontre at the Auditorium des Halles.

Chamber Orchestra from Norway with Terge Tonnesen as conductor and violin soloist: Grieg, Mozart (Thur 8.30pm). Auditorium des Halles.

Orchestre de Paris conducted by Leonard Bernstein in memory of Nadia Boulanger (Wed), Salle Pleyel (4561 9607).

ITALY

Rome: Villa Medici (Piazza Trinita dei Monti, 1): Les Musiciens del Louvre playing Rameau's Les Surprises de l'Amour conducted by Marc Minkowski (Thur). (654 4601/2 or from Villa Medici before performance).

Rome: Piazza del Campidoglio: (Wed) Warsaw Symphony Orchestra with Mstislav Rostropovich. Beethoven, Vivaldi and Tchaikovsky; (Thur) Yuri Ahronovitch conducting the S. Cecilia Orchestra. Dvořák, Mozart and Mussorgsky. (654 1044).

LONDON

Endellion String Quartet: Beethoven, Mozart and Brahms. Chartered Acountants' Hall, Copthorne Avenue, EC2. (236 2801). (Mon).

Sarah Vaughan and trio: Royal Festival Hall (Mon, 8pm). (928 3191).

Parikian-Milne-Fleming Trio: Mozart, Brahms and Schubert. Ten Trinity Square, EC3. (236 2801). (Tue).

City of London Sinfonia conducted by Richard Hickox with Andrew Watkinson, violin and *Garfield* Jackson, viola. Bach, Haydn, Handel and Mozart. Guildhall Old Library (Tue). (236 2801).

Stan Getz Quartet and Brandford Marsalis Quartet. Royal Festival Hall (Wed).

NEW YORK

Mostly Mozart Festival (Avery Fisher Hall): Beaux Arts Trio. Mozart, Beethoven, Schubert (Mon); Mostly Mozart Festival Orchestra. John Nelson conducting, Alicia de Larrocha piano, Thomas Hampson baritone. Mendelssohn, Mozart (Tue, Wed). Lincoln Center (874 2424).

Tanglewood: Emerson String Quartet. Smetana, Schuller, Beethoven (Thur). Lenox, Mass (413 637 1666).

Jazz in July Festival (Kaufmann Hall): Vince Giordano and the Nighthawks featuring clarinetist Phil Bodner in a tribute to Benny Goodman (Tue); Guitar recitals by Tal Farlow, Bucky and John Pizzarelli, Howard Alden and Marty Grosz (Wed); New York Saxophone Quartet featuring Dennis Anderson performing Scott Joplin and others (Thur). 1395 Lexington Av at 92nd St (996 1100).

WASHINGTON

Wolf Trap: National Symphony conducted by Gunther Herbig Jean-Pierre Rampal flute. Schubert, Beethoven, Mozart (Thur). Vienna, Va. (703 255 1868).

CHICAGO

Ravinia Festival: The Academy of St. Martin-in-the-Fields. Neville Mariner conducting. Prokofiev, Mozart, Mendelssohn (Tue), Elgar, Haydn, Vaughan Williams, Bizet (Wed); Chicago Symphony. Gennady Rozhdestvensky conducting, Viktoria Postnikova piano, Frank Peter Zimmermann violin. Haydn, Prokofiev, Schnittke, Massenet (Thur). Highland Park (728 4642).

Opera and Ballet

WEST GERMANY

Munich, Bayerische Staatsoper: Munich's annual opera festival runs to July 31. The third week opens with Cosi fan tutte, with an interesting cast led by Ann Murray, Julie Kaufmann, Peter Schreier, David Hampson and Theo Adam. The much-loved Otto Schenk production of Der Rosenkavalier stars Lucia Popp, Brigitte Fassbaender, Helen Donath and Kurt Moll. Also Die Zauberflöte in August Everding's production. The main parts are sung by Sylvia Greenberg, Pamela Coburg alternating with Helen Donath, Theo Adam and Hermann Prey.

LONDON

Royal Opera, Covent Garden: Last two performances of the season – Die Frau ohne Schatten, splendidly conducted (by Christoph von Dohnanyi) and sung (by Gwyneth Jones, Ruth Falcon, Helga Dernesch, Robert Schunk and Siegmund Nimsgern); and the "revised version" of the disastrous Fidelio production by Andrei Serban, with Elizabeth Connell in the title role and Colin Davis conducting (240 1066).

Coliseum: Students and young professionals of the Bolshoi Ballet School in mixed bills (836 3161).

Sadler's Wells, Rosebery Avenue: Merce Cunningham season (278 8916).

ITALY

Rome: Terme Dicaracalla: Spectacular three-act ballet, Spartacus, by Hungarian choreographer Laszlo Seregi, conducted by Alberto Ventura, with Mario Marozzi as Spartacus, Lucia Colognato as his wife, Flavia, and Salvatore Capozzi as Crasso, a roman commander. (46 17 55).

Rome: Villa Medici: Roland Petit's Ballet National de Marseille in A Zizi con Amore (654 4601/2 or from Villa Medici before performance).

Verona: Arena di Verona: (65th festival): Summer season opens with slightly tame La Traviata by Gianfranco de Bosio, conducted by Ralf Weikert. Nelly Mericioiu alternates with Julie Cornwell and Daniela Longhi in the part of Violetta, and Jose Carreras (alternating with Franco Bonisolli and Ivan Kiurkciev as Alfredo. Aida, with startling scenery composed of shimmering geometrical shapes (by Pietro Zuffi), conducted by Donato Renzetti. Maria Chiara alternates with Seta Del Grande and Martha Colalillo in the title role, Nicola Marinucci sings Radames, and Fiorenza Cossotto, Amneris. Madame Butterfly, with soprano Renata Scotto making her first attempt at directing (also singing in some performances), conducted by Yoshinori Kikcuchi (28 151).

Ravenna: Rocca Brancale One (Ravenna Festival): Carmen conducted by Raphael de Burgo and directed by Pierluigi Samaritani, with Agnes Baltsa, Jose Carreras, Silvano Carroli and Alida Ferrarini (36 161).

Turin: Parco Rignon: (Torinodanza 1987) Theatre Choreographique de Rennes with works by choreographer Gigi Caciuleanu and the Moscow Ballet Company with classical works and modern dance from choreograhers Gordeev, Elfman and others (54 45 62).

NEW YORK

New York City Opera: Performances of La Rondine and La Bohemé join the repertory of Tosca, with Elizabeth Holleque in the title role conducted by Alessandro Siciliani in Frank Corso's production, and La Traviata. Lincoln Center (870 5570).

New York Grand Opera (Central Park): Free performance of Madame Butterfly at the 72nd Street Bandshell. (860 1335 for raindates).

Jacob's Pillow Dance Festival: Summerlong work and performance schedule in the Berkshires features recitals this week of African Dance (Tue-Thur). Becket, MA (413) 243 0745.

WASHINGTON

Bolshoi Ballet (Opera House): Performances of The Golden Age start the week-long schedule. Kennedy Center (254 3770).

Cinema/Nigel Andrews

Cartoon caper time

An American Tail directed by Don Bluth

The Big Bang directed by Picha

Take It Easy directed by Albert Magnoli

Slate, Wyn and Me directed by Don MacLennan

Cambridge Film Festival

Psychologists, hundreds of years hence, will pore over the animated films produced in the 20th century and wonder why we were all so obsessed with mice. Why, the psychologists will ask, do human beings depicet rodents on screen as loveable, lively, expressive, charismatic creatures, when if they saw one in their own kitchen they would scream and send for the exterminators?

An American Tail, like the recent *Basil The Great Mouse Detective*, depicts a halcyon world where mice run freely amok, without any apparent form of rodent control, talking, singing, wearing clothes and cracking jokes. Directed by ex-Disney animator Don Bluth for Steven Spielberg's company, it shows what a cycle of effortful repetitiveness the cartoon business has got into since Walt's death.

We begin promisingly. The Mousekowitz family is driven from Russia by the Cossack terror (the Cossack cavalry includes a large number of cats) and voyages to New York. During the sea journey they lose young Fievel, who is washed overboard. However, Fievel finds refuge in a bottle and lands safely in N.Y. The question now is — will the family be re-united?

An hour later they will. But first we must have songs, dances, danger, rats, cats and famous actors (Madeline Kahn, Christopher Plummer, Dom DeLuise) doing their larynxes untold damage by voicing the multifarious menagerie. It all becomes strenuously predictable. In the days of the great Disney feature cartoons, inventiveness was king and lavish production values its kingdom. This film and its recent peers boast the diminshed visuals no doubt inevtable in an increasingly cost-intensive business. But they also boast unmemorable songs, crude characters, laboured comedy routines and a last-reel appeal to sentiment so barefaced it is like a smash-and-grab on our emotions. When little Fievel at last runs into Mum and Dad, the music swells and tears are solicited. But though I am usually responsive, nay Pavlovian, with my tear-ducts on such occasions, one feels that to respond here is like weeping at the request of a mugger with a gat.

★

Don Bluth, in a recent radio interview, said that a great experinece at the cinema or theatre "rearranged the molecules of your being" (*sic*). *An American Tail* paralysed my molecules for several hours. And just when they were beginning to stir again, I saw *The Big Bang*. Directed and co-written by Picha, this is an animated fantasy with human — or at least humanoid — characters, and it goes some way towards explaining why we prefer our cartoons with mice. Erotic comedy is the keynote, as we follow the apocalyptic battle between the "USSSR" (the USA merged with the Soviet Union) and the all-female nation of "Vaginia" in a futuristic Planet Earth.

There are, not to detain you, a series of gale-force jokes and

Animated erotic comedy goes some way towards explaining our obsession with lovable screen rodents

vignettes concerning flying testicles, castration by guillotine, women with multiple breasts, anally fixated mutants, exploding buttocks and many other things likely to cause Aunt Edna to keel over and require the oxygen cylinder. I am not often one to side with Aunt Edna, but in this instance I will happily pay for her oxygen. The movie is in bad taste, which is permissible, but it is also bad in everything else: feebly plotted, crudely animated and with a line in scarbrous comedy so nudging that you are lucky to escape with unfractured ribs.

★

Take It Easy is a live-action feature about international gymnasts, starring real-life Olympic gold medallist Mitch Gaylord. Due to circumstances beyond my control, I was late for the film. I therefore had to work out such early conundrums as why our gymnast hero Steve (Mr Gaylord) had such a fraught relationship with his father and why his father kept turning up at the gym speaking with an Italian accent. Finally I discovered they were two different characters, although they looked the same, and the one in the gym with the Italian accent was Steve's trainer.

Not that such subtle distinctions matter here. This is one of those sports films which have the same relationship to real life as a TV commercial. The camera chops about between gilded poses of the male athletes, their bodies haloed by light. The female athletes seem to have stepped out of a Revlon ad and they never mess their make-up even when perspiring or shedding a victory tear. And the soundtrack wallops us with disco music, *Flashdance* style, whenever there is a break in the dialogue. It is 101 minutes of body-beautiful hyper-sell, directed for what it is worth by Albert Magnoli.

The silly season staggers on with Don MacLennan's *Slate, Wyn And Me* from Australia. The unprepossessing title identifies a film that might more properly be called "Bonnie And Clyde Go To The Outback." Two brothers (Martin Sacks and Simon Burke), having accidentally shot a policeman during a small-town robbery, hare off into the countryside taking a young girl (Sigrid Thornton) as hostage. Soon they are living from hand to mouth, theft to theft, and cliché to cliché, as vast quantities of Jack Daniel's fuel their outlaw energies but fail to wash away their lurking unease or growing triangular love tensions.

Guitars skitter on the soundtrack; cameraman David Connell, in the Australian New Wave style, gilds and irradiates the multitudinous scenes, making the green one gold, and other embellishments are deployed to establish a pop-mythic context for a film whose puny characters, endowed with B-movie dialogue and problems, deserve no context kinder than oblivion.

★

If there is a moral to this week's London openings in the cinema, it is get thee to Cambridge. The town's annual film festival has a splendid programme, stretching from the best of recent UK releases (*Radio Days, Something Wild*) via special Costa-Gavras and Soviet Cinema seasons to British premieres of movies so far glimpsed only in palmy Cannes. Among the best: Peter Greenaway's *The Belly Of An Architect*, the mischievously funny—and tragic—tale of an architect, his belly and the terrible things that can happen to one in Rome; *Wish You Were Here*, David Leland's wittily evocative tale of a girl's growing up in 50s seaside Britain; and the Taviani brothers' *Good Morning Babylon*, telling how two young Italians moved from restoring Sienese cathedrals to designing elephants for D. W. Griffith. The festival lasts until July 26.

Meditation/Coliseum

Clement Crisp

There were two Stradivarius on stage at the Coliseum on Wednesday in Kevin Haigen's new pas de deux for Natalia Makarova and Martin James. One was played by the Bulgarian violinist Galina Stamenova, in her luscious performance of the Chaikovsky *Meditation* which is the inspiration for the duet. The other was Makarova herself, singing of grief and unassuaged longing in every line of her body as she soared and sank into the admirably attentive arms of Mr James. The unbridled sentiment of Chaikovsky's brief concert piece (with Kevin Darvas an excellent accompanist) found an immediate response in Makarova's intensity of expression; the elegance of Miss Stamenova's playing and the tonal beauty of her instrument were no less aptly mirrored in the distinction of Makarova's physical utterance.

Meditation is essentially a *pièce d'occasion* to commemorate Makarova's presence with London Festival Ballet this week. It is made by Mr Haigen, and well made, to capitalise upon her ability to convey feelings of regret, of ungnessable longing and despairs that are the special mark of *l'âme slave*. It is to the enormous credit of Makarova and Mr James, and of Miss Stamenova, that matters do not get out of emotional hand: lesser interpreters would wallow. But the fine line of good taste, the fine line of Makarova's body in its pink shift, makes the piece an oddly touching exercise for the delectation of a great ballerina's public.

The programme was otherwise of repertory fare. Janette Mulligan gives such seriousness to Christopher Bruce's *The World Again*, and Festival's artists dance so honourably, that we accept the inexplicable matter of the work through pleasure in the company performance. In *Carmen*, Susan Hogard starts with the advantage of resembling Zizi Jeanmaire, great originator of the title role, in physique. She is a beautiful young woman, and once she accepts the extreme stylisation of Petit's choreographic language, as vivid and pungent as Clavé's designs, she can become an outstanding interpreter.

It is good to report that the company seem to have settled into Balanchine's *Symphony in C*, which ends the evening. It is not a super-charged City Ballet performance, but honest in style and buoyant in attack.

Alastair Muir

Robert Demeger and Cornelia Hayes

The Balcony/Barbican

Michael Coveney

Genet's death last year has prompted the RSC to mount a festival in his honour, although the only main house show is a new version by Terry Hands (and Barbara Wright, who does the translating) of the play within a brothel that was given its world premiere in London 30 years ago.

Genet is not exactly RSC style, anathema to sponsors and big mixed audiences, but Mr Hands persists in his belief—he did the piece at the Aldwych in 1971—that this hall of mirrors and illusion where a Chief of Police seeks identity on stilts while a Revolution rages on the streets outside remains a going theatrical concern. It may well do in the different hands of Lindsay Kemp or (I can vouch for this) the Glasgow Citizens. At the RSC, we have a hieratic dumb show in which ecstasy and humour have been rigorously expunged along with all hints of homoerotic ambiguity.

The result is a turgid stomp through the old hat theatrical world of fantasy and deception, of whips and dressing up, of the penetration of reality by authoritarian threats. Farrah's garish pink knocking shop has a musty pipe organ installed up top from which emanate some wheezy anthems provided by Guy Woolfenden, some of them straggling on pitifully beneath the action improper.

That action comes across as a series of kinky capers for tired businessmen rather than dangerous experiments in sexuality. The Bishop, the Judge and the General are Madame Irma's most elevated clients, all attired in bulging costumes and mounted on stilt-like platforms that resemble medical boot equivalents of cothurni. Their various declarations are contained in suddenly descending gilt frames—guilt frames, too—while key positions are reported as falling to the rebels outside.

The shock of these scenes should derive from the public enactment of private fantasy, but the General's (Robert Demeger) mounting of his leather-clad mare (Cornelia Hayes)—"You wait until I get the bit between your teeth"—has all the innocent relish of a child's party game. And there is little sense of danger or cut and thrust once we arrive at the tussle for supremacy between Dilys Laye's "Carry On" Madame, the Madame Cyn of French Algeria (although all those historical reverberations are long gone and totally ignored) and the ludicrously long-legged, flaxen-haired star whore Carmen of Kathryn Pogson.

Mr Hands claims in the programme that he respects Genet's revised version of the final scene and incorporates additional material in the revolutionary interludes. The effect is to sharpen the criticism of the "grim technicians dressed in black" who delete song and frivolity from the revolutionary agenda; and to push forward Joe Melia's cringeing, spring heeled Chief of Police to a heavily allegorical prominence. He leads the company in a tinny song at the end having taken his decision—dressed as any self-respecting contemporary English senior police officer — to seek salvation through the administration of law and order from behind pink lacy curtains.

All very daring and risqué, you might think, and you would be wrong. The essential dramatic truth in Genet is that costume and artifice both protect man from himself and create the image of him that passes for the truth. There must be joy and riotousness in the dissemination of this principle. Here, we have a thuddingly banal pictorial composition and low wattage in the scenic light bulbs.

The later scenes of the analytical discussion of power motives I have always experienced to be irredeemable even in the best productions. The problem is more acute when you can never be sure if anyone is speaking for himself or for his role. We tend to know where we are with Miss Laye, whose regal greatness is thrust upon her in the form of a poodle wig and Elizabethan robe of state. But the moment anyone starts to mention the search for absolute purity one tends to drift off. The three dignitaries are by this time wearing head masks that make them look like the Mighty Mekon in the old Eagle comics. And a suggestion that man-sized phallus might be a very difficult disguise to bring off attracted, I felt, the wrong sort of titter.

Gerard Murphy is a powerfully earnest rebel leader whose cohorts might have benefited from a couple of choruses lifted from *Les Miserables*. His apotheosis in a tin foil mausoleum is beautifully handled, the high point of the evening.

Two African dramas from LIFT

The African contribution to this year's London International Festival of Theatre comes in two shows at the Riverside: one, a dance drama of land and the people, the other a play of the doubly dispossessed—the black women of South Africa. Different though the two pieces are, their diversity is revealing.

New Earth, which was commissioned for the festival, is a courageous attempt to weave the traditions of three major Nigerian tribes into something that reflects their individuality while emphasising that they are part of a cultural continuum. This is theatre as a tool of reconciliation and celebration, ironically only made possible by LIFT's patronage.

In *You Strike the Woman You Strike the Rock*, the Vusisizwe Players equally bravely give us the theatre of opposition that has become one of South Africa's most successful exports. This is the product of a people who have nothing to celebrate except their continuing strength to resist.

Of the two, *New Earth* by the University-based dance troupe Kufena, is the less satisfactory, perhaps partly because, true to its name, it is pushing on to new terrain. It is divided into five sections, opening with a ritual purification of the earth, progressing through the traditions of harvest and marketing to a final political statement about the nature of power in Nigeria and its ability to twist the people around its little finger with a timely offer of reward. Comic cameos emerge of the triumvirate of oppression — the general, the scholar and the traditional chief, each determined to take his share of the crop.

The message is undoubtedly apposite enough: perusal of the programme notes reveals the aim of the piece to show how the diversity of Nigeria's 350 separate cultures is being undermined and distorted by successive regimes. But its energy pulls away from a cohesive political theme towards a purely sensual enjoyment of the diversity offered in the dance, costume and rituals of the different tribes.

Choreographer Peter Adejo has a remarkable ability to orchestrate the contrasting dances of the Hausa, Yoruba and Ibo people: the Hausa with their distinctive, earthy women's line-outs, the chanting Yorubas and the chic Westernised Ibos clad discrepantly in scarlet polka-dotted ra-ra skirts. And he has his match in a band, playing a range of traditional instruments from drums to horns, flutes and a fascinating conical percussive instrument held to the floor with the toes. What is outstanding about these musicians is their ability to capture such a range of expression with such a limited ensemble—one never gets the feeling that they are falling prey to a muzak of too slickly incorporated styles.

In *Strike the Woman*, on the contrary, the political message is scorching and consistent. It is a show in the tradition of *Woza Albert!* which uses history as a springboard for the representation through mime, music and mimicry, of what life is like as a second class citizen in troubled times.

The show's title is taken from a song written to commemorate the day, 31 years ago, when 20,000 women from all over South Africa marched on Pretoria to protest about having pass laws imposed on them. The men were no keener than they were, for the simple reason that they saw the laws as usurping their traditional control.

The three central characters are market traders who have left their homes and families to make a living in Capetown — a living rendered doubly precarious by a hostile police and a confused, decontextualised male population driven to drink by the lack of anything better to do, and given to demanding the day's takings from frightened children.

When Mampopo regales her friend with the indignity of "having smarties" with her husband on a rickety bunkbed in a hostel full of migrant workers, or when Mambele proffers a chicken leg to a child "so that you can run on fast like Zola Budd" one can feel a shudder run through the audience. Poppy Tsira, Thobeka Maghutyana and Nomvia Quosha run through the scenes with a sensitivity to each other and their material which enables them to find light in the darkest corners of oppression and deprivation.

The piece itself, developed from a series of workshops with director Phyllis Klotz, is not as sharp or as apocalyptic as *Woza Albert!* (the comparison is odious but inevitable) but in its espousal of the two major themes of the 1980s — feminism and racism — it cannot lose.

Claire Armitstead

Three Men On A Horse/Vaudeville

B. A. Young

The story of John Cecil Holm and George Abbott's *Three Men on a Horse*, which opened at the Vaudeville on transfer from the Cottesloe, has the friendly challenge of a fairly-tale. It is no more likely that Erwin Trowbridge, a simple writer of verses for anniversary cards, would have an infallible gift for picking the winners of horse-races than that Jack's beanstalk would reach into a strange world in the sky. We do not care; we let the improbability lead where it will.

There have only been three changes in the company on transfer, two of them in small parts, one, Toyah Wilcox, in the colourful part of Mabel, the girl-friend of Patsy, the leader of the three strong-arm gamblers who take Erwin over for their own profit. She is hard to recognise under the blonde 1935-fashion wig she wears, but all her usual charm survives, and she is as convincing a frequenter of the bar at the Lavillere Hotel, New York City, as the rest of them.

Erwin, played by Geoffrey Hutchings, lives in New Jersey, and it is on his daily busrides to his publishers that he dreams up his winners. He is a helpless character, dominated by his wife Audrey (Alison Fiske), her brother Clarence (Nicholas Le Prevost) and his boss J. G. Carver (a forbidding Michael Beint). He is more helpless still in the hands of Patsy (Ken Stott) and his mates who cannot believe that if he bets on his selections his gift will go.

There is a true fairy-tale end. The gamblers put all their magical winnings on the nose of Erwin's tip, and it is beaten by the horse that he had considered but discarded. They have begun to beat him up when the radio announces that the winner has been disqualified and his tip has won. So everyone is rich; Erwin makes friends with his wife again; even J. G. Carver puts him up from $40 a week to $60. It is all happily and briskly done under Jonathan Lynn's direction, on a set papered with dollar bills.

Alastair Muir

Toyah Wilcox

Joaquin Achucarro/Stationers' Hall

Dominic Gill

The Stationers' Hall in Ave Maria Lane is of roughly Wigmore Hall proportions — more than twice as long as it is wide, with a fine high ceiling—and has one of the best chamber-music acoustics in the City (better even than the Bishopsgate Hall's). The Spanish pianist Joaquin Achucarro played his City of London Festival recital of de Falla and Ravel there on Wednesday evening: and it was a delight to hear piano sonority for once, outside the one or two familiar venues, with such a warm and clear and intimate bloom. Could the Stationers, I wonder, be persuaded to make more frequent use of their splendid musical asset?

There were other delights too. Achucarro's first half, devoted to de Falla, offered a handful of fluent, stylish performances of pieces too often neglected by recital programmes. They included de Falla's first and last published piano works: a little *Vals-capricho* dating from 1900, charming salon Chopin without the faintest waft of Spanish perfume; and the miniature *Tombeau* for Paul Dukas, a delicate, twilight homage from 1935. It was specially good also to hear the *Pièces espagnoles*—a pocket-sized *Ibéria* (the four pieces were dedicated to Albeniz, although they actually pre-empted *Ibéria* by a year or so); and the exuberant *Fantasia Bética*, one of Artur Rubinstein's occasional encore alternatives to his favourite *Ritual Fire Dance*.

Achucarro devoted his second half to Ravel, whose music is one of this year's special festival themes. I thought his *Valses nobles et sentimentales* just a shade heavy-handed (I still have Perlemuter's and Cherkassky's radically different but equally magical accounts echoing in the memory) — but it was a very likeable and professional performance all the same, even if it was not a great one. Much the same can be said of his *Alborada del gracioso* and his *Gaspard de la nuit* — although his *Gaspard* had some masterly qualities, and a sparkling precision of articulation. There were some nice sleights of hand in *Scarbo* especially; and I very much liked the exactly calculated values of all of the important silences — rare to hear silences so rhythmically expressive.

Dido and Aeneas/St John's

Andrew Clements

Emerging from its latest spell of hibernation, the English Bach Festival on Wednesday in St John's, Smith Square, mounted another example of what has become its speciality in recent, more frugal times: stagings, gaudily costumed, of baroque operas and masques. There is always about the EBF's jamborees of this kind the saintly aura of authenticity, of historical veracity decked out like a carnival float. So this staging by Tom Hawkes of Purcell's *Dido and Aeneas* was given not only in period costume but with a reconstruction by Curtis Price of the spoken and danced prologue—an allegorical retelling of the story of Pheobus and Venus—that began the opera at its first performances.

Few operatic masterpieces can have come down to us at further removes than *Dido*. The whole of the original score has been lost, and the version current today derives from performing material 100 years younger than the work itself. Of the Prologue nothing survives, though the overture that launched this reconstruction is thought by some to be original. The rest of the confection therefore had to be constructed from other pieces of Purcell roughly contemporary with the opera, though extra vocal music was rationed, pastiche firmly rejected and the bulk of the text spoken instead.

The object of the exercise, to quote Price's programme note, was to give "a modern audience a glimpse of what [the Prologue] might have been like." Certainly a flavour of gently pointed allegory was conveyed, but with such an uncertain musical basis, any dramatic point to the version was necessarily minimised. Unfortunately the same feeling of redundancy spilled over into the presentation of the opera proper. Musically, under the direction of David Roblou, the performance was thoroughly secure; dramatically it seemed wanting in every aspect.

Eiddwen Harrhy's Dido and Marilyn Hill Smith's Belinda brought the most finished and complete performances; Della Jones's Sorceress was the one most hobbled by the theatrical style. Ian Caddy was an intermittently convincing Aeneas, Maria Bovino an engaging Second Woman. The chorus seemed awkward in much of what it was required to do onstage, reflecting that unease in its singing. Not, altogether, a memorable piece of historical recreation.

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Market power in aviation

BRITISH AIRWAYS'S merger with British Caledonian, its only sizeable UK rival in the scheduled airline market, threatens to make a nonsense of the Thatcher Government's airline competition policy. The top priority identified in the 1984 White Paper on the subject was the promotion of a "sound and competitive *multi*-airline industry."

The Government referred back approvingly to the Edwards Committee report of 1969, which had put the case for a strong "second force" in British aviation as the best way to meet consumer needs. The Government argued that there should be "at least one airline fit to replace BA on any major intercontinental route should the need arise."

There is thus an overwhelming case for referring the BA bid to the Monopolies and Mergers Commission. BCal may not be in the best of financial health, but there is no question of its failing in the short run. The Government is not under the sort of shotgun pressure applied by Mr Rupert Murdoch in the recent bid for the Today newspaper. The Trade Secretary therefore has a clear duty to see that the arguments about market structure, economies of scale and the potency of foreign competition are examined in full and at the commission's leisure.

Fully insulated

BA has put forward some superficially plausible reasons for merger. It claims to be concerned that it is now smaller than seven of the largest US airlines and argues that it needs to be bigger in order to compete effectively in the global market place. It says the merger will offer significant cost-savings, both through staff redundancies and through eliminating duplicate services. It argues that worldwide competition is fiercer than in 1984 both as a result of changes in the US domestic market and because of the shift towards liberalisation in Europe.

Yet it is difficult to believe that an airline that carries more passengers than any other and bills itself as "the world's favourite" really needs to absorb a small UK rival to remain competitive. BA is already far larger than most of its competitors in Europe and is not seriously threatened by the series of mergers that has increased the concentration of the US domestic aviation market, which, regrettably, is likely to remain fully insulated from the rest of the world for the foreseeable future.

Nor is it plausible to argue that the structure of the international market has changed significantly in the past three years. Deregulation in Europe has been minimal and the vast majority of world routes remain bilateral revenue-sharing monopolies administered by politicians and bureacrats. BA in a sense is not free to compete harder in most markets even if this would theoretically be made possible by the purchase of BCal.

Competitive structure

BA may be right to argue that some economies of scale could be reaped by merger. But this argument in favour of a single national flag airline (whether state owned or private) has been heard and dismissed by aviation experts throughout the post-war period. As the Civil Aviation Authority argued three years ago, when it was pressing for a significant reduction in BA's market share ahead of privatisation, the likelihood is that a sole flag airline would "sooner or later become again a high cost and high fare operator, competing in terms of product rather than price."

Diversity does matter: the flying public will have noticed that BA has improved its services on routes where it competes against BCal as well as a foreign monopolist. Indeed, the Government was until recently extolling the virtues of "dual designation" as a means of gingering up BA's performance. There will be little point in pressing for dual designation on future deregulated European routes if the UK choice is redsced to BA or BA. A credible "second force" in British avaiation—and preferably a more innovative and dynamic one than BCal—is most resolved by the Monopolies that BCal is financially weak certainly does not prove that it is no longer practicable. It may merely show that more routes should have been stripped from BA before its public sale. These issues of competitive structure should be resolved by the Monopoilies Commission.

Competing in the product race

THE DRAMATIC revaluation of the yen has cast a public pall of gloom over Japanese industry. The export-led manufacturing boom of the past quarter-century is over, proclaim local pundits, and globally successful companies such as Canon, Epson, Minolta and Sharp are now in for a hard time.

Yet a behind-the-scenes study tour of these and other leading companies, organised by Britain's Design Council, has just returned with a very different message: that many Japanese managements are confidently working to beat the soaring yen both by moving up-market, and by accelerating still further the rate at which they develop and launch new products.

As the original instigators of the "product race" which has spread to a growing swathe of international markets and industries in recent years, the Japanese are much better masters of the tactics of fast development than most of the European and American companies which are struggling to emulate them. So the latest turn of the screw bodes ill for the West, even if the Japanese are forced by economic and political pressure to manufacture more of their new products in Europe and the US, instead of continuing to export them direct.

Key weapon

The causes of the product race, and its growing pervasiveness, have been examined over the past month in a series of articles on the Management Page. Today's conclusion—which looks at Glaxo, the fast-rising UK drugs company—illustrates that the race has spread far beyond industries which are directly in the Japanese firing line.

In order to cut their escalating development costs, or improve market competitiveness (or both), makers and suppliers of products as diverse as food, aircraft and financial services have been forced to join the race.

As our series has shown, the strategies and tactics needed to run it successfully are far from easy to learn and apply, especially for multinationals whose responsiveness and organisational effectiveness have been dulled by decades of creeping complexity, departmentalisation and bureaucracy. They are finding it hard to copy the time-saving Japanese approach of carrying out various phases of the development process in parallel with each other, instead of their usual drawn-out sequence. Such tactics require a degree of cross-functional collaboration which at present is beyond most large western companies.

For them, the increasingly fashionable tactic of establishing semi-independent, multi-functional task forces and other "intrapreneurial" devices to speed product development can do nothing but good. Informal coalitions of innovative staff are also worth encouraging.

Main achievement

Yet no amount of small and dedicated project teams, formal or informal, can have the desired effect on the company's overall performance if the rest of the body corporate remains hierarchical, slow-footed and risk-averse. The value of task forces and interdisciplinary teams is not that they absolve the mainstream organisation from the need to innovate, but that they show it what can be done if it changes its ways.

The main achievement of the famous independent development team which catapulted IBM into personal computers in 1981 was not only the product's remarkable success, but that the episode sparked a much-needed shake-up in the way IBM as a whole organised itself to create new products.

In such contrasting companies as Sony and Baker Perkins (which has just merged with its fellow UK process equipment maker, APV), close collaboration between different groups of specialists has been developing for so long that it now permeates the life of the whole organisation. For multinationals such as Philips and Volvo, such teamwork is relatively new.

As both categories of company have found, a prime prerequisite for this way of working is that top management should see product development as a strategic issue, and the championing of innovation as one of its own responsibilities. Otherwise it is not even worth trying to run the product race.

Michael Donne on the historic merger between British Airways and British Caledonian

Reluctantly, BCal flies into BA's slipstream

	Year-end 31 March					Year-end 31 October				
	1983	1984	1985	1986	1987	1982	1983	1984	1985	1986
Number of passengers (million)	14.6	14.2	15.9	17.0	17.3	1.9	1.9	2.1	2.3	2.4
Passenger load factor (%)	66.5	64.1	68.5	68.0	67.0	59.1	61.0	63.7	61.9	59.6
Pre-tax profit (loss) (£m)	7*	185*	191*	195*	162*	1.5	3.3	15.9	21.7	(19.3)

*Includes British Airtours Ltd

THE MERGER of British Airways and British Caledonian, announced yesterday, represents more than just the creation of one of the biggest airline groups in the world.

It represents the end of a dream cherished by successive UK Governments—and by many in the UK air transport industry itself—of creating a "second force" in British aviation to compete with the dominant BA.

But British Caledonian has proved far less profitable than its own founders, led by Sir Adam Thomson, had hoped (it lost £19.3m in the financial year to October 31 1986), and has been constantly plagued by political problems both at home and overseas. Nevertheless, it has given British Airways a tough time in many markets, especially on the few short-haul scheduled European routes and even fewer long-haul intercontinental routes it has been able to win.

British Caledonian was formed in 1970, with a capital of £12m by the merger of Caledonian Airways and British United Airways, both independents. It stemmed from a recommendation of the Edwards Committee, chaired by the late Sir Ronald Edwards, which proposed that a "second force" could be created by merging the two strongest independent airlines. The aim was to provide competition for the British Overseas Airways Corporation and British European Airways, which later merged to form British Airways.

Yesterday's merger will create one of the strongest international airline groups in the world, with some 22m passengers a year, over 48,000 staff and assets valued at £1.2bn. It will bring together the world-wide route networks of BA, currently over 560,000 km, and BCal, some 110,000 km. The routes largely complement each other, and even where there is duplication — as on some of the short-haul European routes (Amsterdam, Paris, Brussels, Geneva) and long haul routes such as New York, Hong Kong and Tokyo, the combination of traffic volumes will make the merged airline a formidable force.

In effect, the combination will create a "megacarrier" similar to those formed in the US airline industry through mergers and acquisitions in recent years. Lord King, BA's chairman, said yesterday the merger would give British aviation an "unrepeatable opportunity" to create a British airline "capable of taking on the world."

The merger was a "very positive move for Britain and a source of satisfaction," said Sir Adam Thomson, chairman of BCal.

UK INDEPENDENTS

	Passengers
Britannia Airways	5,397,152
Dan-Air	5,018,037
Monarch Airlines	1,971,154
British Midland	1,552,639
Orion Airways†	1,340,027
Air UK	858,526
Manx Airlines	369,054
Virgin Atlantic Airways	290,161

* Scheduled and non-scheduled, 1986. † Part of Horizon.

Source: Civil Aviation Authority

As Lord King pointed out, "on over half of BCal's present network, there is no corresponding BA service. On the remaining half we will face substantial competition from foreign airlines and, where open markets exist, from other British airlines wishing to compete on the short-haul and regional routes."

Even two years ago, such a merger would have been unthinkable, and indeed was actively discouraged by both airlines.

In the run-up to its privatisation, BA was preoccupied with turning its operations round from losses to profits—for the year to March 31 this year, BA made a pre-tax operating profit of £162m.

Even so, BA was deeply concerned at the possibility that BCal would link up with another European airline to strengthen its financial base and increase its competitive potential.

BCal, for its part, had always been anxious to preserve its independence. Nonetheless, in the past it has held discussions on possible collaboration with organisations including European-based airlines and UK groups such as International Leisure Group (which includes the independent rival, Air Europe) although oft-repeated suggestions of a deal with Cathay Pacific have always been denied.

Over recent years, BCal's difficulties have intensified. Its route network, apart from the profitable and successful operations to the US, has been plagued with problems. The US bombing of Libya last year hurt traffic to Tripoli; the swap with BA of loss-making South American operations for the profitable Saudi Arabian network fell foul of a downturn in Middle East economies; while BCal's West African routes have been troubled by difficulties in repatriating foreign currency earnings from the countries served.

At the same time, BCal has been preoccupied with the struggle to win new routes, to enable it to compete with its far bigger compatriot. This has involved time-consuming and expensive battles for licences before the UK Civil Aviation Authority and the even more difficult task of convincing reluctant foreign governments to permit another UK airline to fly into their territories. It has also fought for the liberalisation of air transport in Western Europe—always financially and operationally more important for BCal than for BA.

BCal saw in this effort an opportunity to compete more effectively with BA, and consolidate its position as the true "second force" in UK civil aviation. The collapse of the UK Government's attempts to press liberalisation at a recent Brussels meeting of Community Transport Ministers dashed such hopes.

BCal, looking ahead, could see another long period of weary international negotiations that would, at best, give it only a few of the routes it sought.

Its financial results, too, have continued to disappoint. In the eight months of the current financial year, the company has been desperately trying to turn last year's loss of £19.3m into an operating profit of £30m—a target which outside observers gave it little chance of achieving.

The airline's strategy of concentrating on becoming a major scheduled airline while ignoring the potential of charter operations, especially short haul in Western Europe, has come in for criticism. As a result, other airlines have picked up traffic at Gatwick which BCal might otherwise have won, and new airlines have been formed, such as Air Europe, to become BCal's competitors

In the context of these problems, it seems likely that the BCal Board—possibly influenced by major shareholders including Investors in Industry, which holds over a 40 per cent stake—felt that a merger with BA was the best long-term solution.

The merger, Lord King argues, will give British aviation an "unrepeatable opportunity" to create an airline which is "capable of taking on the world"

The proposed merger will create a number of policy problems for the Government. Although at first sight the concept of a single "second force" airline now seems to be dead, it is still possible for other UK independent airlines, such as Britannia, British Midland, Dan-Air and Air UK, to try to pick up where BCal has left off. They may seek new short-haul, and possibly also long-haul routes of their own.

It seems unlikely that any of the remaining independents will want to be involved in long-haul intercontinental operations on a scheduled service basis. The costs of setting up such operations are too heavy, as BCal has found, not to mention the difficulties of winning the necessary reciprocal overseas licences. On that basis, the concept of long-haul "dual designation"—having two British flag airlines on a given route—would appear to have died along with that of a "second force.'

Competition for new short-haul scheduled routes will remain vigorous. More and more independent airlines are in the market—Air Europe, for example, has been granted rights to a number of such routes to begin later this year—and even some traditional "charter" operators have begun to seek scheduled service operations within Western Europe.

At the same time, the UK Government's task of pressing for more liberalisation, cheaper fares and greater market access for its airlines worldwide may also become more difficult. Many major world airlines will be wary of an enlarged and more powerful British flag airline emerging onto world routes

Another possibility also arises—that of a merger of some of the bigger UK independent airlines, in an attempt to protect themselves from predatory behaviour by the much enlarged British Airways.

None of the remaining independent groups seems likely to withstand the competitive attacks which BA is certain to launch both at home and abroad, and further amalgamations cannot be ruled out.

Men and Matters

Branson's Irish bargain

These are exciting times for British airlines. And I hear the slip-streams of change are just as evident among the minnows as among the giants, British Airways and British Caledonian. The young and vigorous Ryanair, founded by the Ryans, a family of Irish aviation entrepreneurs, has made a name for itself in less than two years by attacking head-on the cosy carve-up of the London-Dublin route by BA and Aer Lingus.

The Ryanair "no-frills" service from Luton airport at fares far below the levels set by the majors has been a success from the first flight.

Now Ryanair is surprised to find itself exposed to new and unexpected competition. Richard Branson's Virgin Atlantic airline, which first established itself by flying a Boeing 747 on the North Atlantic route, has begun flying a venerable Viscount prop-jet, painted red, on the Luton-Dublin route.

Weekend fares only undercut the Ryan bargain rates by a few pounds for a return ticket. But on the less popular weekday flights competition is cut-throat. Virgin is offering a single fare for only £35 compared with more than twice that by Aer Lingus and BA.

Branson's airline does not have its own licence for the route. He is using one issued to British Air Ferries and using one of their aircraft in his own colours.

But he does not apparently have any wish to treat the competition like he treated his hot air balloon—driving it into the sea. He says he admires Ryanair for its pioneer work in freeing the skies over the Irish Sea. But he also believes there is room for everybody . . .

Backfire

Roy Ward, director general of the Institute of the Motor Industry, found himself talking to a half-empty press conference yesterday when he announced "Mint 88"—a motor industry new technology conference and exhibition.

It is aimed to help British motor component makers and others in the industry identify their problems, spot opportunities, and generally become, or remain, competitive.

And the caus eof the problem? Another press conference was called at precisely the same time, to discuss the findings of the Commons Trade and Industry Committee's probe into the UK motor components industry to identify its shortcomings.

Estate cars

While east Germany's leader Erich Honecker prepares for his "historic" visit to West Germany in September, his subjects are concerned with more mundane matters.

The topic which takes precedent over all others is how to get a car in less than the 12 years waiting time it takes for a tiny fibreglass Trabant with a two-stroke engine, or the nine years wait for a three-cylinder Wartburg.

One East German woman wrote to the legal advice programme on East German radio and asked whether the person whose name is on the wating list for a car can bequeath the place on the list

Dr Udo Krause, a lawyer, said yes—the place on the list could be assumed by the married partner of the deceased or by one of the adult children.

In the event that the listener has brothers or sisters who are also heirs then he or she must be sure to get them to state in writing that they renounce any claim to buy the car. That must be done before the name can be entered on the waiting list.

In the meanwhile the listener may decide to buy a used car. But even a five-year old car in East Germany sells for as much as a new one—10,000 marks for the Trabant and 20,000 marks for the Wartburg.

On the beach

Knokke-Heist, Belgium, is hardly Malibu or Santa Monica.

But if the sun shines on Belgium's most fashionable seaside resort for just a few hours on Tuesday afternoon it should feel just like California for thousands of rock fans and local holidaymakers.

The reason is a planned spectacular open-air concert by the Beach Boys, the US group indistinguishable in most people's minds from sun, surf, sand, sex, and the Swinging Sixties."

The now middle-aged crooners are back in Europe for the first time in six years on a mini-tour which also takes in London (Sunday), Hamburg (Wednesday) and Geneva (Thursday).

Tuesday's giant beach party at Knokke, however, is the highlight of the week with a site chosen capable of packing in up to 150,000 fans. It is also a dream come true for promoter Nigel Griffiths, a Brussels-based communications consultant who has been working on the idea for just over a year.

"People thought we were mad," admits Griffiths, an accomplished amateur keyboard player, who says that his experience as public relations consultant to the European Venture Capital Association has given him a valuable insight into when to take risks.

Sponsors Toyota and Peter Stuyvesant have covered much of the cost. But there is still a substantial amount of his won money riding on the outcome.

Sponsors Toyota and Peter Stuyvesant have covered much of the cost. But there is still a substantial amount of his own money riding on the outcome.

Incidentally, for those still time-warped in the Sixties, the Beach Boys now number 11 musicians, including four of the five originals (Dennis Wilson, one of three brothers, was drowned four years ago.

Their popularity in the US is currently as strong as ever with tennyboppers and "little old ladies" swelling the audiences at their 150 or so performances a year.

Household words

A colleague shared a London taxi with two other men. One was a lecturer in politics and the other a builder who began an argument over the merits of local authority and private home ownership.

The lecturer came down strongly in favour of council housing the builder in favour of the private sector. The argument continued for some time before the taxi driver intervened. He pointed out that he could see both points of view—after all, he had a council house in Islington and one of his own in Bexhill. End of argument.

Dumb animals

Unusually hot weather in Vancouver, Canada, is disorienting some of the animals in the zoo.

The polar bears, which might have been expected to suffer, are quite comfortable. They simply retreat to their air-conditioned underground quarters.

But some Australian kangaroos, says a zoo official, are "too dumb to come in out of the sun."

For a while zoo officials toiled in temperatures above 100F lifting the kangaroos bodily into the shade. Then someone had the idea of playing a water sprinkler on them.

Observer

POLITICS TODAY

The Kinnock machine rolls on

By Malcolm Rutherford

THESE ARE early days in which to make a judgment. Yet anyone watching the British political scene in the last few weeks can hardly fail to have been struck by the different ways that the Labour Party and the SDP-Liberal Alliance have reacted to their defeat in the general election.

The Alliance plunged straight into internal warfare and is unlikely to reach a truce before the autumn at the earliest. The Labour Party, on the other hand, has been putting up a pretty good show of business as usual.

It may well be that in future these reactions will be regarded as peculiar. For, with nearly 23 per cent of the vote, the Alliance did not do all that badly and, for Labour, it was the third defeat in a row.

It is not as if the latter lost by a whisker. Labour made a net gain of only 20 seats and, at 30.8 per cent, its share of the vote was six percentage poins below what it achieved when Mrs Thatcher came to power in 1979.

Still, one can only report things as they are and the fact is that while the Alliance has panicked, Mr Neil Kinnock, the Labour leader, is behaving as if the defeat was simply a stepping stone on the way to victory next time.

The Labour Party, on the whole, is going with him. Although the party conference is still to come, there have been relatively few outbursts along the lines that Labour lost because its platform was insufficiently socialist and almost no attacks on Mr Kinnock himself. On the contrary, he seems to have the party at his feet. Even the conference in Brighton at the end of September promises to be a fairly friendly affair.

Consider the events of the last week or two. The parliamentary party held the elections to the shadow cabinet slightly earlier than necessary and they went smoothly enough. It is a pity that Mr Peter Shore is out, but he will be an active presence on the back benches along with Mr Denis Healey, who did not stand.

For the rest, Mr Kinnock was able to appoint a youngish team with some debating skills: Mr Jack Straw, for example, should be a formidable shadow to Mr Kenneth Baker on education. And the twin talents of Mr John Smith and Mr Bryan Gould, on Treasury and Trade and Industry affairs, will not make life easy for the Government. The party may be wearing thin on ministerial experience, but its front bench will still not be a pushover.

Moreover, Mr Kinnock was able to do with the shadow cabinet election results pretty much what he liked. Mr John Prescott, previously the employment shadow, came second in the poll with a substantial increase in his vote on last year, but was given the relatively minor post of shadowing energy. Mr Prescott complained a bit, but there was nothing like mutiny. Mr Kinnock's authority holds.

Other changes are going ahead. The party's publications, Labour Weekly and New Socialist, are being closed and although there is some feeling that the labour movement does need—and may need again—a theoretical magazine of the New Socialist kind, few tears are being shed. Closing them is part of the efficiency process which continues without a pause for grief at the election result.

Of course, the obvious disarray within the Alliance has helped. It has stolen the headlines when Labour was quite happy to be out of them. And if the Alliance parties had won a couple more percentage points of the vote, everything would have been different. Yet there is, I think, a quality in Mr Kinnock that is sometimes underestimated: staying power.

He did not crack during the election campaign, as he might well have done. When the results came through, he seems to have buckled down and determined to run the same course again, only harder. Indeed, he appears to think that it is Mrs Thatcher who will crack in the end and, given the influence of time, that could be true.

It would be quite wrong to suppose, however, that Mr Kinnock believes that the election results mean that the Labour Party needs to turn itself into a softer version of Thatcherism: market economics and all. The

Labour leader may learn but he does not essentially change.

The difference between the defeat in 1983, when Labour was led by Mr Michael Foot, and the defeat in 1987, is, Mr Kinnock says, one of attitudes: attitudes within the party and within the country towards the party. Labour has a battle-hardened leadership now. It is recovering the will to win.

The changes that Mr Kinnock will seek to foster in the party constitution are not all that great. He is in favour of one member-one vote in the selection of parliamentary candidates in the constituencies, rather than selection by a more or less self-appointed caucus. That change will probably go through the party conference this year, backed by the trade union vote.

But any internal reforms will not go much beyond that. Mr Kinnock says that he cannot foresee a Labour Party that does not have the union block vote in some form or other. Certainly he would not seek to instigate such a change himself. If it arose through a process of osmosis within the entire labour movement, he would not oppose it, yet he thinks neither that is very likely nor that it is particularly desirable.

His views on the unions have not much changed either. He thinks that they are evolving much in the way that the party has been evolving in the last few years. Younger leaders are coming through, some of them his contemporaries and old friends. Personal relations with them are very close and amicable, but he says that he sees no need for the unions and the party to sit down together and plan a joint future. They have a common root, but they develop in parallel.

There has been no overnight conversion in his economic policy; nor is there about to be. Mr Kinnock remains insistent that Mrs Thatcher puts too much faith in the markets, which one day will let her down. Essentially he wants the Japanese model of selective state intervention in industry, though tempered by learning from Austrian, West German, French and Swedish experience.

All that was written in his book, Making our Way, published before the general election. Nothing in his thinking has changed since. What he regrets, he says, is that people did not notice how much emphasis he put on education and training. In his election speeches he claims to have spoken more about the future than the Prime Minister did. "The future belongs to those who prepare for it," was his theme, but he adds without much bitterness that it was under-reported.

What it comes down to is forming an alliance of ordinary, decent people: haves as well as have nots. Some time before the election, when Labour had around 40 per cent of the vote in the opinion polls, it seemed to be almost there. Those supporters did not emigrate, he says. Some of them could come back, and more.

The support faded partly because of the parliamentary by-election in the London constituency of Greenwich in February. Labour put up a hard left candidate and lost to the Social Democrats.

The experience may have permanently influenced Mr Kinnock's thinking. He says that the by-election focused the public mind on the mixture of myth and reality of all that is supposed to be wrong with the Labour Party. He means the so-called loony left and the London factor. Anyone who has anything to do with that is likely to stay beyond his pale.

Mr Kinnock is not even trying, for instance, to cultivate Mr Ken Livingstone, the former leader of the Greater London Council and now a London MP. There would be no point, he seems to suggest, in seeking to bring him round. Mr Livingstone is being ostracised. "You only need a loud-mouthed minority to lose you an election" is the way of putting it.

If there is a streak of authoritarianism in Mr Kinnock, that is it. He wants his own people around him. He does not like potential rebels. But that does not mean that he is solely attacking the left; only the left that he regards as hard. At the other end of the spectrum, the Labour leader is just as unlikely to back Mr Frank Field, the MP for Birkenhead who has shown his own kind of independence and whom Mr Kinnock once sacked.

Yet, Greenwich and the London factor apart, did Labour also lose the election because of its defence policy? The evidence here is still being studied. Certainly the unilateralist approach to the rejection of nuclear weapons did not help, but there is a view in Mr Kinnock's office that many of the people who said that they would not vote Labour because of defence would not have voted Labour anyway. What they really doubted was the party's capacity to deliver on the economy.

Better schools, a better health service were all very desirable. The nagging doubt was how a Labour government would be able to pay for them. That is what the party will now be working on.

Meanwhile, will it change its defence policy? Perhaps not. It is very hard indeed to imagine Mr Kinnock going for anything but a non-nuclear approach. He adds, however, that in four years' time the circumstances may be completely different and such a policy more acceptable. The Trident boats, for example, might be used for non-nuclear purposes.

It would be absurd to make predictions about the next general election now. Still, it is worth noting that Labour has reacted to its defeat better than the Alliance. It is, without qualification, the official opposition.

Lombard

France opts for the 'Euro-look'

By Guy de Jonquieres

THE RISE in hemlines ran away with the headlines at the Paris spring collections. But for dedicated followers of French political fashion, one of this year's most intriguing trends is the sudden return of the "Euro-look."

Europe is back in style with a vengeance. On television, government-sponsored commercials extol the virtues of France's membership of the Community, while political leaders of widely differing persuasions are united in urging the country to look beyond national frontiers to wider European horizons.

The focus of much of this breathless enthusiasm is the EC's ambitious plan to create a single European market by removing all internal trade barriers by 1992. The programme crops up so frequently in speeches by President Mitterrand and Prime Minister Jacques Chirac that each seems to be vying to make the issue his own.

The idea of 1992 as an *annus mirabilis* has struck a loud chord in the French business community, too. More than 100 working groups have sprung up across industry to prepare for the challenge of a Europe without frontiers while business leaders, almost unprompted, wax eloquent on the topic.

It is no accident that this new mood conicides with a morose domestic debate about national decline. To a France worried about its faltering economic performance and lack of clear national direction, the challenge of 1992 offers both a fresh goal and a lever for effecting internal structural change. With the economy set to figure prominently in next year's presidential elections, Mr Chirac is undoubtedly keen also to clutch at any pretext to deflect criticism of his own record by conjuring up hopes of a brighter tomorrow.

Yet even more striking than the volubility of the 1992 debate is that France, with its long tradition of protected markets and nationalistic policies, should have reacted to its current malaise by looking outwards. Its response is all the more surprising when contrasted with the US, where somewhat similar anxieties about national competitiveness have translated into pressures for increased trade protection.

Attitudes in French industry — or at least among many larger companies — are equally instructive. Only a few years ago, the prospect of a freer European market would have been viewed in France as the prelude to an invasion by West German industry. Today, it is talked of as an invigorating challenge and an opportunity for expansion.

All of this points to a considerable change in the climate. While the Chirac government's policies of deregulation, privatisation and generally reduced state intervention may have failed so far to generate faster economic growth, they have sharpened awareness that the imperatives of international competition require French industry to become more self-reliant, internationally-minded and responsive to market forces.

The exaltation of 1992 may, therefore, amount to little more than a device to spur French industry to do faster what it needs to do anyway—enhance its competitiveness. However, there is also another side to the question: by placing so much emphasis exclusively on Europe, is France confusing the ends with the means?

The danger is that this attitude could narrow horizons and mean that a single European market was viewed more as a protective bulwark against wider international competition than as a springboard from which to attack global markets. Some in Paris already argue, indeed, that as internal EC barriers are lowered, external ones should be raised against the rest of the world.

A sharp lurch towards more trade protection in the US might well make pressures to build a "ring fence" around the EC irresistible. But to view this from the outset as an automatic corollary of a freer EC market would risk recreating on a European scale the same closed and inward-looking policies which France has long operated nationally, and from which it is now struggling so hard to escape.

Letters to the Editor

Turkey and the EC

From Mr L. Whitehead

Sir,—There are good economic and political reasons for caution over Turkey's application for full membership of the European Community. But the cultural and religious obstacles emphasised by Edward Mortimer (July 14) are bad reasons for excluding Turkey. The Community envisages the possibility of full membership for any European state (this includes Turkey) that can meet the economic and political requirements laid down by existing members.

Religious affiliation can hardly be the decisive consideration considering that the Community already includes Catholic, Protestant and Orthodox communities, and a number of states (like Turkey) which are governed according to secular principles. Moreover, there already exist significant Islamic communities in Britain, France and West Germany. Turkish culture should be a source of pride and admiration rather than of fear. The argument that an enlarged Europe would be too heterogeneous and farflung has already been deployed . . . first against the UK, and then against the three new southern European members.

Of course, Europe must not advocate the dismemberment of Turkey as a condition for joining the Community. But the European parliament cannot be barred from recognising the existence of a Kurdish and an Armenian question, any more than it can be expected to deny the Basque problems or the Ulster conflict. Turkey cannot expect Europe (and least of all Britain) to acquiesce in its military occupation of northern Cyprus, and any prospective member of the Community must expect close scrutiny of its democratic credentials. The political coherence of the Community would indeed be threatened if an anti-democratic or annexationist Turkey were admitted to full membership.

It is these *political* obstacles that should be emphasised. Over time and with goodwill they may be lifted. Cultural and religious differences are harder to change, but can be accepted so long as the economic and political requirements of membership are met.

L. Whitehead,
15, The Green,
Blodon, Oxon, OX7 1RR.

No excuse for missing the bus

From Mr J. A. Morgan

Sir,—You report (July 14) that Touche Ross, a leading accountancy firm, believes that investment companies could face serious problems if the Government sets an early deadline for businesses applying to join one of the regulatory bodies established under the Financial Services Act. I understand the comment was made in connection with the launch of an excellent guide for investment businesses seeking authorisation under the Act. Touche Ross is to be commended for its efforts in this area, but I do not think the sentiment should be allowed to pass without challenge.

The Financial Services bus has been signalled for a long time. It is running to a timetable which is still to be published; and that is a matter which it is to be hoped the Government will put right very soon. Nevertheless, anyone who misses the bus has only himself to blame. The Financial Services Act reached the statute books at the end of last year after wide consultation and lengthy debate. The regulatory framework to be created by the Act has been apparent for some time. With so much forewarning it is surely inappropriate to be asking for more time to make preparation.

The Investment Management Regulatory Organisation (IMRO) published its rule book over four months ago, in order to give investment businesses as good an indication of what would be expected of them as members of IMRO as early as possible. It is late in the day to be saying, "stop whingeing and start reading," but the temptation is strong.

John Morgan,
Chief executive of IMRO.
Centre Point,
103 New Oxford Street, WC1.

Betting against a racing certainty

From Mr A. J. Harper

Sir — Mr John Wakeham, Leader of the House of Commons, suggests that it is a "racing certainty" that critics of the community charge will not be able to propose a better alternative. What a pity he did not state the odds.

The Government should proceed with a complete reassessment of rateable values and then fix a nationally-binding rate in the pound. This rate poundage would be decided by calculating the average rate bill for all households in the year prior to the revaluation and applying a factor which produces the same average money bill in relation to the new national average rateable value. Thus, although rateable values might quadruple, rate poundage would fall.

Having arrived at this nationally applicable rate poundage, local governments would be bound to spend only the money raised thereby. Therefore until the next, and preferably annual, revaluation the only means whereby a council could increase its revenue would be by encouraging enterprise and development within its franchise or else by pleading to Whitehall (with fully costed and cogently argued plans) for additional expenditure funded by the rate support grant.

These proposals are, of course, not as good as introducing site value rating but then again one has to be cautious when betting against racing certainties.

Arnold J. Harper.
31, Russell Road,
Wimbledon, SW19.

A question of benefit principle

From Mr R. J. Sandilands

Sir, — Rosalind Levacic's letter (July 8) puts an interesting case for the benefit principle in regard to local government finance.

While agreeing with several of her points about efficiency versus equity in relation to the benefit and ability-to-pay principle respectively, I am surprised that she should view the poll tax as conforming more closely to the benefit principle than does the present rating system.

Properties are supposed to be valued according to the current rental incomes they can command in the market place. These rental incomes are a composite of land rents and rent for buildings and improvements. In many central locations, the land element is by far the most important. But land values reflect amenities of all kinds, some provided currently, some in the distant past, by local or national government such as schools and parks, or by private facilities in the neighbourhood such as shops and places of work.

Those who occupy the most sought-after houses, offices and factory space do so because these are located most advantageously and offer most benefits, many, though not all, provided publicly. Thus the present rating system operates largely according to the benefit principle Ms Levacic applauds.

Where the present system fails is in that it also takes improvements which are provided and paid for at the private initiative and expense of individual householders and businessmen. By contrast, land values are the result of facilities provided by the whole community. When rates are scrapped, land values will rise and economic rent will be transferred back from the community that creates it to individual landowners.

Thus it can be seen that the rating system, preferably modified to remove rates on improvements so that we move to a site-value rating system, is to be preferred to the regressive poll tax on grounds of both efficiency and equity.

Roger Sandilands.
Department of Economics,
University of Strathclyde,
Cathedral Street,
Glasgow.

Problems of cost accounting

From Mr P. A. Hewitt

Sir,—William Dullforce's article on the black holes of cost accounting (July 1) does a disservice by attributing all the ills of industry to poor cost accounting.

This is not so in the UK. For decades, leading companies have used the most appropriate cost accounting *for* their circumstances. The particular concept used depends on the purpose, eg, for valuing inventory, pricing output, interdivisional transfers, or capital investment appraisal.

The problem may lie not so much with leading companies as with small ones which often cling to outdated practice. The message is simple — get yourself a professionally-trained member of this institute.

P. A. Hewitt.
The Chartered Institute of Management Accountants,
63 Portland Place, London, W1.

Poll tax and responsibility

From Mr R. Tweed

Sir,—The motive for a change from rates to a community charge is clear, and discussions about the ability to pay, or about benefits, miss the point.

Should the power of a vote be used without responsibility for the consequences of that vote?

People who seek to damn the community charge call it a "poll tax." Surely a poll tax is perfectly proper if it means that voters consider and accept the direct financial consequence of every vote? After all, we live in a mature democracy where the right to vote is unchallenged and the responsibility of the individual is encouraged.

If a poll tax also stimulates politicians to consider the electoral consequence of every promise, we will all be richer, and democracy will be healthier.

Richard Tweed
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Park Hill, Croydon

FINANCIAL TIMES
Friday July 17 1987

Bid boosts Marine Midland

Analysts forecast that Hongkong & Shanghai will have to sweeten its offer if it is to win control of the New York-based banking group. William Hall in New York and Kevin Hamlin in Hong Kong report.

THE SHARES of Marine Midland Banks soared on Wall Street yesterday as analysts forecast that Hongkong & Shanghai Banking Corporation would be forced to increase its bid substantially if it was going to win full control of the New York-based banking group.

Hongkong & Shanghai offered to buy the 48 per cent of the shares of Marine Midland Banks which it does not own for $70 per share in cash, or $677m, in an announcement made after the close of business on the New York Stock Exchange on Wednesday. In early trading yesterday, Marine Midland shares rose $16¾ to $76½.

Hongkong & Shanghai, which was founded in 1865 to finance the growing trade between China, the US and Europe, is the latest multinational company to attempt to buy out the minority of its US subsidiary and judging by the experience of others, such as Royal Dutch/Shell and BP, Wall Street is betting that it will have to sweeten its offer.

Mr Mark Alpert, a bank analyst with Bear, Stearns, described the offer as 'way too low' and said that it was less than six times his projected 1988 operating earnings of $12 per share for Marine Midland.

Mr Jim McDermott of Keefe Bruyette Woods, who is forecasting earnings of $12½ per share plus $2 of tax benefits in 1988, suggested that on the basis of the average bank stock multiple of seven, Hongkong & Shanghai might have to raise its bid to around $85 per share.

One of the problems in valuing Marine Midland is that the group is in the process of transforming itself from a money centre bank into a regional banking group. This type of institution tends to be more highly rated on the stock market because its performance is not dragged down by big loans to troubled Third World countries.

Mr Alpert says that there has been a 'tremendous turnaround' at Marine Midland, which has 321 banking offices in over 200 New York communities, and is forecasting that it will earn 90 basis points on its assets in 1988. In 1982 the group earned a below average 45 basis points on its assets and last year it earned 65 basis points.

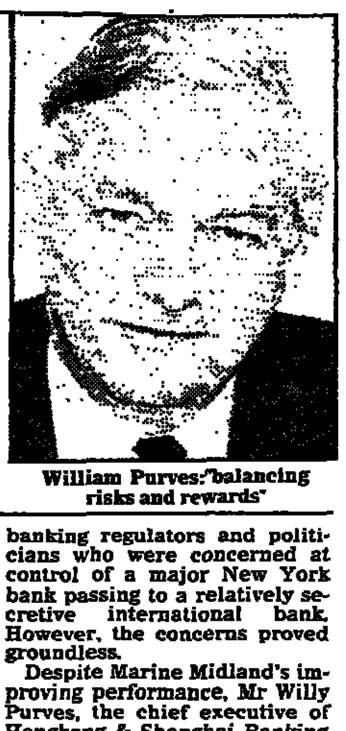
Marine Midland Banks, which has twin headquarters in New York City and Buffalo, has assets of $24bn and is the 19th biggest US banking group. Last year, it earned $145m and although it recently reported a $294.6m second quarter loss because of its decision substantially to bolster its reserves against troubled Third World countries, its underlying profitability has been improving.

Hongkong & Shanghai, which is among the 25 largest banking groups in the world with assets of $91bn and more than 1,300 offices in 55 countries, won control of Marine Midland in 1981 after a prolonged battle with US banking regulators and politicians who were concerned at control of a major New York bank passing to a relatively secretive international bank. However, the concerns proved groundless.

Despite Marine Midland's improving performance, Mr Willy Purves, the chief executive of Hongkong & Shanghai Banking Corporation (HSBC), said in a letter to the Marine Midland board that Marine Midland Banks would need further financial support if it was to continue to grow and prosper in a highly competitive and volatile marketplace.

'Under the legal and regulatory environment as it is developing, HSBC, as the parent bank, in practice already bears the financial risks and regulatory responsibility associated with full ownership of Marine Midland Banks.

"HSBC feels that it is no longer willing to provide additional capital for Marine Midland's continued growth so long as HSBC receives only part of the benefits. Increasing our ownership to 100 per cent would balance the risks and rewards of our investment,' said Mr Purves



William Purves:"balancing risks and rewards"

In Hong Kong, Mr John Gray, director of group finances at the Hong Kong bank, said the move to full control would enable Marine Midland to have better access to world capital markets, and would provide it "with a lower cost of capital because it will have the strength of HK Bank behind it 100 per cent."

Most Hong Kong banking analysts said the offer price represented a good long-term investment, but some concern centred on the fact that the acquisition would increase HK Bank's exposure to Marine Midland's loans in Latin America.

HK Bank has said recently that it would meet its forecast 12.8 per cent boost in dividend for 1987 even with allowances for its current 52 per cent portion of Marine Midland's recent loan loss provisions on its Latin debt.

HK Bank recorded attributable profits up 12.4 per cent to HK$3.06bn in 1986, but through the use of inner reserves it essentially declares a profit of its own choice.

Its share price yesterday increased 10 cents to HK$9.45, a reflection of what stockbrokers saw as the operational advantages accruing from full ownership of Marine Midland.

"If they increase their holding, more aspects of the operations can be rationalised, there will be more synergy, and it will be more convenient for the group to expand further in the US, especially with their cheap funding base in Hong Kong," said one banking analyst.

Hk Bank generally prefers to have total control of its subsidiaries, and last month bought the remaining 20 per cent stake in Hongkong Bank of Australia

Robert Thomson reports on the trade problems that lie behind impressive statistics

China battles to get out of the red

THE REFORMERS in China's leadership will take an impressive set of trade statistics along with them to informal but important Communist Party meetings in the next few days at the scenic seaside resort of Beidaihe, in the north.

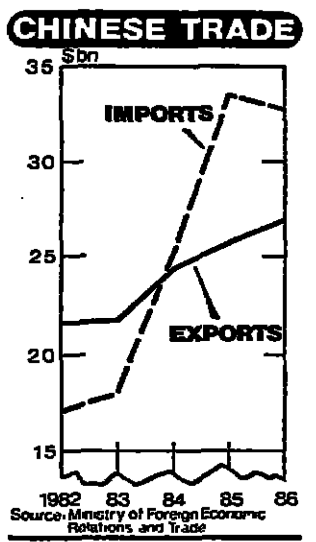
Last year, China had a trade deficit of $11.97bn, or $5.8bn, depending on whether Customs Bureau or Trade Ministry figures are to be believed. In the first half of this year, the deficit was only $2bn, according to the Customs Bureau, which tends to produce the less flattering figures.

Many elderly party members take a rather simplistic view of trade: if China is running a deficit, they think the country is being exploited by foreigners. The latest statistics will undoubtedly appeal to them.

The reformers will be able to cite the improvement as evidence that the party is in control of the economy, evidence that will be invaluable in the months leading up to a crucial party congress in October, when important personnel changes will be made and the country put on course for the next decade.

As one Western diplomat put it yesterday: "If this was Western Europe and we were on the eve of an election and these figures were released, the party would be sure to win."

Yet even the most reformist of China's leaders would concede that the statistical success hides serious problems. Apart from an increase in the value of exports - up 24 per cent to $16.6bn in the first half - the deficit reduction has been achieved by tighter controls on imports, which fell by 6 per cent compared with the same period in 1986.



Source: Ministry of Foreign Economic Relations and Trade

The partial recovery of oil prices has been another bonus - oil sales comprised about 25 per cent of export earnings in 1985 and slightly less last year. Increases in exports are to be expected too, given the large scale reassignment of raw materials and skilled workers to export industries.

Textiles are the boom item, particularly in sales to the US. They almost doubled last year and increased enough in the first half of this year to fill more than half China's annual textile quotas in the US. The industry is rushing to export items outside the 67 products covered under a bilateral agreement that is up for renewal this year.

The notoriously parochial import and export corporations in the provinces are responsible for the textile surge and for a great deal of confusion among Chinese producers, who are bypassing traditional manufacturers in their haste to get materials abroad. The official Economic Daily has carried complaints from Shanghai clothing factories unable to get raw materials from traditional suppppliers in other areas.

With the promise of increased protection in the US, diplomats are convinced that China cannot rely on textiles to solve its trade problems. A European diplomat doubts whether the increase in exports overall can be sustained: "I can't imagine that they will be able to keep this up for very long. If they do, we will able able to assume that the economy is much stronger than we think it is."

Another diplomat suggested that several strong export industries, including textiles and electronics, are in the making and have already shown surprising flexibility in coping with international market fluctuations. But he said high domestic demand remains unsatisfied and could quickly plunge the country deep into deficit if let loose.

A 16 per cent devaluation last July of the renminbi, China's currency, has helped stimulate exports. As well as keeping China's export prices down, the move has given producers more hard currency return for exports and turned some away from the domestic market.

While Chinese officials have yet to admit it, they have pegged the renminbi to the dollar, which has meant a steady devaluation of the local currency without the political brawl that generally accompanies a devaluation decision. The exchange rate for $1 has remained at around 3.7 yuan since last October.

If the deficit is turned around this year, it will be well ahead of schedule. Zheng Tuobin, Minister of Foreign Economic Relations and Trade, has previously indicated that the country does not expect a surplus until the 1990s. For the sake of industrial order, it might be in the country's best interests to wait until then.

London's markets to stop shuffling paper

BY HUGO DIXON IN LONDON

ONE OF THE City of London's most antiquated and quaint practices, whereby London's money markets are cleared by messengers carrying around bundles of paper from one financial institution to another, is to finish by the end of next year.

Thirty-six of the City's leading money market participants, including the Bank of England, yesterday announced the formation of LondonClear, a new company which will set up an electronic clearing system. The markets involved are those in short-term sterling paper such as Treasury bills, local authority bills, certificates of deposit, commercial paper and trade bills. London's other main securities markets are already cleared electronically.

At the moment, when an institution sells money-market instruments, it sends a messenger around with the bits of paper to the institution which buys them. These are verified and payment is made by cheque.

The system goes back to the nineteenth century and has worked reasonably well because all the major players are based in the City within walking distance of one another. However, it is now considered to be time-consuming, costly and risky.

Each bit of paper is worth between £10,000 and £1m, and every day about £1bn is cleared in this way. Every so often, the pieces of paper get lost and, since anybody who gets hold of them can theoretically cash them, the consequences can be serious.

The new system, LondonClear claims, will get over these problems. All the paper will be left in the care of the Bank of England and the ownership of it will be recorded on a central electronic register. Firms will be linked to this central computer by electronic terminals and, when they have agreed a deal, they will key in the details. Provided the details provided by both parties to the deal match, ownership will be transferred electronically.

There will also be no need to write cheques. Payment will be effected electronically by linking LondonClear into existing electronic payments systems.

LondonClear has appointed the International Commodities Clearing House, a company owned by six of the clearing banks and responsible for the clearing system in commodity markets, to design the new system. Towards the end of the year, it will produce a blueprint and, provided this is satisfactory, it will be given a green light to build it. The total cost of the project is expected to run into millions and possibly tens of millions of pounds.

ITT seeks buyer for its stake in STC

BY DAVID THOMAS IN LONDON

ITT is looking at ways of selling its 24 per cent stake in STC, the UK electronics company, which could bring the diversified US group more than £400m ($652m).

A sale of the stake in STC to a single buyer could form the basis of a takeover bid for STC. However, analysts and industry insiders yesterday said it might be difficult for ITT to find a single buyer.

ITT has been denying any interest in selling the stake since the stake was excluded at the last moment from ITT's deal at the end of last year with Compagnie Generale d'Electricite, when the French electronics group took control of ITT's telecommunications interests.

However, ITT has been under pressure from some Wall Street analysts to sell. In dollar terms, it has doubled in value over the last six months as a result of STC's rising share price and movements in the exchange rate.

ITT holds about 131m shares in STC, which yesterday closed up 8p at 329p.

ITT refused for the first time yesterday to deny its interest in selling its stake. It said in New York: "We have a number of options available which we are now and will be considering."

It has talked to securities houses in London about those options, including inviting them to bid for the right to distribute the shares, a public offering or seeking a single buyer.

ITT does not appear to have decided yet which method it would prefer or even the timescale of the sale. Lord Keith, the STC chairman who has turned the company round after it made losses in 1985, said ITT had undertaken not to sell the stake to any group unacceptable to STC.

THE LEX COLUMN

Forget you ever had a choice

By merrily pushing up the British Airways share price in contemplation of waving good-bye to all that nasty competition, the market is blithely disregarding the large sum of political credibility that H.M. Government has invested in liberalisation of the airways. If a reference seems almostunavoidable a "yes, but" reply must be possible, with BA having to relinquish BCal's domestic routes. The benefits to BA from even such a second-best deal would, eventually, be considerable, but pushing airlines together is never an easy job (remember BEA/BOAC) and in the meantime, the market will have plenty of uncertainty to contend with.

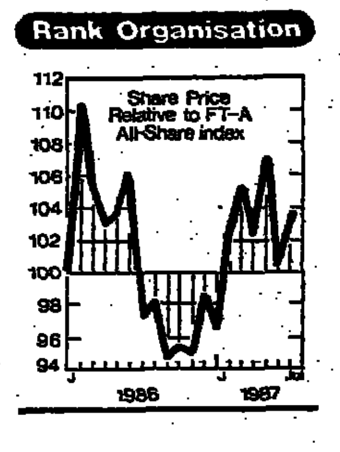
Paying a little over twice shareholders funds for B Cal seems a bit generous considering how seriously Mr Goodman's offer (of a small fraction of that) appeared to be taken last year. The first experience of dilution for the new wave small shareholder should, however, be scarcely noticeable. And BCal's peculiar value to BA deserves a hefty premium, even if the claimed boost to BA's pre-tax profit of close to £50m for 1988-89 may be a touch high. The most interesting - and unanswerable - question is: is this a distress sale? When it comes to persuading the authorities of the potential damage created by delay, yesterday's emphasis on BCal's imminent return to healthy profits may be regretted.

STC

ITT has obviously become sufficently convinced of the resilience of the London equity market to begin plans to unload its remaining stake in STC. ITT appears to be right, since the prospect of swallowing about £430m worth of STC did not dent the price one whit. This seems to follow the paradoxical trend set by the BP share price, which has reacted favourably to the prospect of an avalanche of shares from the government pocket. A corporate bidder for the STC stake seems unlikely, particularly as no one made a move all the way up from the low point in 1985 of 78p

Rank Organisation

A problem in today's knee-jerk markets is that market makers are obliged to take a position on news well before they understand it. Witness the reaction to The Rank Organisation's announcement of interim pre-tax profits of £90m. The 29 per cent increase caused the share price to be marked up by 34p to 850p, only to fall steadily back to 820p, when the truth finally dawned. This was that, although Rank Xerox's profits had risen by almost 50 per cent to £60m, about half of those gains represented the impact of currency appreciation on Fuji Xerox. And the problem with Japanese earnings is that they are taxed at 58 per cent. The underlying growth rate at Rank Xerox was more like 15 per cent, or merely good.



The results from the businesses that Rank actually manages were not even good: after interest there was no increase at all, despite the inclusion of clubs acquired from Ladbroke. Rank is now spending about £100m a year on its consumer businesses, but as yet the consumer has not responded in kind. If Rank manages to make about £195m this year, then the share price is on a multiple of 16½ times earnings. Yes, 850p really was too high.

B&C/Mercantile

British & Commonwealth's deal with Mercantile House was officially "terminated" on Monday but sprang back to life yesterday morning, a reincarnation which was painful for those who sold on Monday, when Mercantile's share price collapsed from 490p to 436p, but highly profitable for the buyers who pushed the price up 31p to 488p on Wednesday. Last night the price stood at 534p. Was the deal ever really off? It's all a question of following the letter of the rules, say the participants, and certainly the offer was formally withdrawn, but such behaviou scarcely makes for an orderly market.

B & C is sweating just perceptibly over the possibility of a counterbid, but it has won most of Mercantile's executives over to its side or to that of its partner in this deal, Credit Lyonnais. However, other Continental banks are still anxious to buy their way into the London securities scene, and potential rivals will no doubt be going over the bid arithmetic.

Why has Mr John Gunn been able to swallow the business of his fellow one-time money broker Mr John Barkshire? Mercantile took the high risk course of a venture into the volatile securities business, but in the event it has not had the money or the management to move into the first division of the global league. Its chequered profit record has left it vulnerable to restlessness amongst shareholders, and internally it has not had the resources to satisfy the ambitions of would-be global players amongst its executives. Meanwhile B & C's strategy of developing a portfolio of low risk niche businesses has left it more comfortably poised, and it is still not ready to assume the hazards of the mainstream securities business.

TSA rules

The lawyers have been busy. They have drafted several hundred pages of rules for the Securities Association, whose member firms have less than a month to comment.

It looks as though interpretation will be crucial. Take the rule on front running, the practice of building up positions in a stock ahead of the publication of a research recommendation. Is this unfair manipulation at the expense of clients? If a firm "reasonably believes" that its front running purchases or sales will correspond to likely customer orders without moving prices by a "material amount" it will apparently be in the clear. That is the legal formula. But the practical rule must be that such practices are wrong if the customers start complaining, reasonably or not.

Iran issues ultimatum

Continued from Page 1

have to slow down airport boarding controls for the five Iranian diplomats still in Paris.

The conflict between the two countries began two weeks ago when Mr Gordji took refuge in his Embassy. He has been linked to Mr Mohammed Mohadjer, who has been charged with the bombings which killed a dozen people in Paris last autumn.

The dispute escalated following the attack on a French ship in the Gulf by two gunboats, believed by France to have been Iranian, and an incident in which an Iranian diplomat claimed to have been beaten by French customs officers.

Morgan Grenfell forced to cut back after poor trading results

BY HUGO DIXON IN LONDON

MORGAN GRENFELL, the troubled UK merchant banking group, yesterday drastically cut back its role as a primary dealer in the gilts market because of poor trading results and mounting overhead costs.

It is the second major casualty of the increased competition in the gilts market, unleashed by last year's Big Bang, which greatly enlarged the number of players and abolished fixed commissions. Lloyds Bank pulled out of the market completely last month.

Morgan Grenfell Government Securities, the group's gilts subsidiary, has made 12 of its employees redundant and redeployed five others elsewhere in the group. About half of those leaving are market makers, a similar number are salesmen and a few were clerks. The firm will be left with only 12 market-makers and salesmen in total.

Mr John Rawlings, head of Morgan Grenfell's debt securities and banking operations, said the gilts side had not actually been making trading losses, but that trading profits had been modest. When the overheads of employing more people than were needed were deducted, there was a loss. Gilts traders and salesmen are some of the best-paid people in the City.

Most of those who have been made redundant were in their 40s or 50s and previously employed by Pember & Boyle, the gilts broker, or Pinchin Denny, the stockjobber, which Morgan Grenfell bought for about £30m last year in preparation for Big Bang. Its original intention was to use the two firms as the base for a new securities operation.

However, it was not satisfied with the quality of some of the people it had bought, according to Mr Rawlings. "When you buy a business, you buy the good, bad and the ugly," he said.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	29	84	Dubrovnik	S	29	84	Malta	S	33	91	Rhodes	S	27	81
Algiers	S	30	86	Edinburgh	F	16	61	Manchester	C	16	61	Rio de J'o	S	32	88
Amsterdam	F	25	77	Faro	F	23	73	Manila	C	31	88	Rome	S	30	86
Athens	S	34	93	Florence	S	31	88	Melbourne	F	12	54	Salzburg	C	24	75
Bahrain	S	38	100	Frankfurt	F	28	82	Mexico City	S	25	77	San Francisco	C	18	65
Bangkok	S	33	91	Funchal	S	25	77	Miami	R	32	90	Seoul	C	23	73
Barcelona	F	27	81	Geneva	F	24	75	Milan	F	28	82	Singapore	S	31	88
Beirut	S	28	82	Gibraltar	S	25	77	Montreal	C	22	72	Stockholm	F	21	70
Belfast	C	16	61	Glasgow	C	16	61	Moscow	C	18	64	Strasbourg	C	24	75
Belgrade	S	31	88	Guernsey	F	16	61	Munich	F	25	77	Sydney	F	18	64
Berlin	S	27	81	Helsinki	C	19	66	Nairobi	F	23	73	Taipei	R	35	95
Biarritz	R	19	66	H. Kong	S	33	91	Naples	S	27	81	Tangier	C	25	77
Bombay	F	31	88	Innsbruck	F	26	79	Nassau	C	31	88	Tel Aviv	S	30	86
Bordeaux	R	18	64	Inverness	F	16	61	New Delhi	S	38	100	Tenerife	S	27	81
Brussels	F	24	75	Islamabad	S	38	100	New York	S	27	81	Tokyo	S	33	91
Budapest	F	25	77	Istanbul	S	29	84	Nice	T	22	72	Toronto	C	20	68
B. Aires	C	20	68	Jakarta	S	33	91	Nicosia	S	39	102	Tunis	S	34	93
Cairo	S	35	95	Jersey	C	18	64	Oporto	C	19	66	Valencia	S	34	93
Cape Town	S	20	63	Jo'burg	F	17	63	Oslo	F	24	75	Venice	S	28	82
Caracas	C	28	82	Lima	C	19	66	Paris	C	16	61	Vienna	F	28	82
Casablanca	F	24	75	Lisbon	S	26	79	Peking	C	23	73	Warsaw	F	22	72
Chicago	F	21	70	London	C	19	66	Prague	F	27	81	Washington	-	-	-
Cologne	F	28	82	Los Angeles	C	27	81	Reykjavik	C	15	59	Zurich	F	25	77
Copenhagen	C	18	64	Luxembourg	F	24	75								
Corfu	S	31	91	Madrid	F	26	79								
Dallas	S	19	66	Majorca	S	29	84								
Dublin	C	17	63	Malaga	S	33	91								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Philippines sues Marcos

Continued from Page 1

the country 18 months ago, should not now be allowed to return as his presence would lead to political instability.

The new constitution states that sequestration orders on over 230 companies linked to Mr Marcos and his associates will be lifted unless civil charges are filed with the anti-graft court by August 2.

The Swiss courts have said their bank secrecy laws will not prevent them from disclosing to the Philippine Government the private accounts frozen in Switzerland. However, the Philippine Government will first have to file criminal charges against the Marcoses before a case can be heard in Switzerland.

The PCGG last week asked the Swiss courts whether criminal hearings in Hawaii, where Mr Marcos now lives with his family, would meet Swiss requirements. Mr Marcos would be free to ignore any Filipino court summons.

Reuter reports from Manila: President Corazon Aquino flew yesterday to a region heavily penetrated by Communist rebels and vowed to bring 'permanent peace' to the Philippines before her term ends in 1992.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Friday July 17 1987

AT&T maintains strong profit growth in quarter

BY ANATOLE KALETSKY IN NEW YORK

AMERICAN Telephone & Telegraph maintained its strong profit recovery in the second quarter as evidence mounted that the US telecommunications group is continuing to recapture market share from its smaller long-distance rivals.

AT&T made net profits of $596m or 55 cents a share in the second quarter, 49 per cent up from the strike-affected $422m or 37 cents it earned in the same period last year. For the first half of this year as a whole, profits were $1.04bn or 95 cents a share, 40 per cent higher than the year before.

While Mr James Olsen, chairman, said he could not guarantee that earnings for the rest of the year would match the first-half level, he expected AT&T "to continue doing better than we anticipated when the year began."

AT&T shares, which have been among the strongest performers on Wall Street in recent weeks, responded favourably to the results, adding $1⅛ to reach $31⅞ in morning trading.

AT&T's total revenues declined marginally to $8.40bn from $8.42bn in the second quarter as a result of rapidly falling rental receipts. But sales of services increased 5.2 per cent to $4.97bn and sales of products rose 1.5 per cent to $2.49bn.

Mr Olsen noted that the actual rate of service growth was faster than the figures suggested because higher service revenues were achieved despite substantial reductions in prices. The rate of growth of product sales, on the other hand, was distorted by the strike in 1986, which reduced sales in the year-ago quarter.

A cut in operating costs appears to be the most important reason for the improving profits picture. Total costs and expenses declined 4.6 per cent as a result of an 8.5 per cent cut in the cost of providing services and a 12.8 per cent fall in the cost of products. Administrative expenses were up 1.3 per cent to $2.6bn, while research and development spending continued to grow by more than 10 per cent, to $619m in latest quarter.

Merck jumps 36% to $235m as new drugs boost revenues

BY JAMES BUCHAN IN NEW YORK

MERCK, the US pharmaceuticals company which is the darling of Wall Street, yesterday justified investor confidence with a 36 per cent increase in net income to $235.1m in the second quarter to June. Per-share earnings rose at the faster rate of 40 per cent (to $1.72) because of shares bought in last year.

Merck stock, which has trebled since the start of 1986, rose a further $1⅞ to $181⅞ in early trading yesterday as Merck reported strong acceptance for its new drugs, notably its Vasotec blood-pressure drug which was introduced in the US in January. Merck, which has long been one of the most profitable US companies, also reported strong growth, with sales up 24 per cent in the June quarter to $1.2bn.

Merck, which is a constituent of the Dow Jones industrial average, was one of three important US drug companies to announce second-quarter results yesterday. Both Warner-Lambert and Upjohn reported solid increases in earnings and sales revenues for the second quarter.

At Merck, Mr Roy Vagelos, chairman and chief executive, said: "New products were key factors in first-half sales growth." Merck, which now derives 51 per cent of its sales revenues from overseas, also benefited from the devaluation of the US dollar. Mr Vagelos said that the strengthening of foreign currencies added seven percentage points to sales growth in the first half.

Warner-Lambert, a diversified drug company with a large confectionery business, reported an increase of 11 per cent in net income from operations to $81m, with per share earnings up 15 per cent at $1.12. The figures exlude a one-time gain in the 1986 June quarter of $48m after tax from the sale of the company's health technologies business.

Sales revenues increased 12 per cent to $856m. "We are very optimistic about our outlook for the second half of the year," Mr Joseph Williams, chairman, said.

Earnings at Upjohn rose 21.6 per cent to $79m or 42 cents a share, on a 12 per cent increase in sales revenues to $665m. The company said that its main pharmaceutical products had shown "continuing strong performances" while favourable exchange rates had added two percentage points to sales growth.

US glass group to sell forest division

By Our New York Staff

OWENS-ILLINOIS, the leading US glass container manufacturer which was taken private in February in a $3.6bn leveraged buyout, has agreed to sell its forest products division for $1.15bn.

The buyer, Great Northern Nekoosa Corporation, is a major producer of pulp, linerboard and packaging materials as well as newsprint and other types of business papers. Nekoosa's sales last year were $2.04bn.

The Owens-Illinois forest products group includes three containerboard mills with an annual capacity of one million tons, 21 corrugated box plants and 700,000 acres of timberland. The group's sales last year were $730m.

The sale of Owens-Illinois' forest products division has been considered probable since the company first received a takeover offer from Kohlberg Kravis Roberts (KKR), the Wall Street leveraged buyout specialists, in December last year.

Forest products contributed 18 per cent to the company's total revenues in 1986 and the value of the division had been estimated at anything from $600m to $1.1bn during the market speculation which surrounded the initally contested KKR buyout.

For Great Northern Nekoosa, the purchase appears to be a logical step towards increasing the vertical integration of the business, which has been criticised by some analysts for being too dependent on the manufacture and sale of commodity paper items.

KKR in $2bn bid for Florida building group

BY OUR NEW YORK STAFF

JIM WALTER, a leading Florida-based building materials and house-building company, yesterday received a $2.03bn leveraged buyout bid from Kohlberg Kravis Roberts (KKR), the Wall Street buyout specialists.

KKR has offered Walter $50 a share in cash – 10 per cent higher than Wednesday's closing price of $45½. But Wall Street arbitrageurs immediately pushed the company's shares to $58⅛, 16 per cent above the bid level, anticipating a higher offer.

In the last year, the company's share price has fluctuated between $32¼ and $49⅞.

Walter said the KKR proposal would be examined by a special committee of outside board members. The company's officers, directors and employees are believed to control about 10 per cent of stock.

Walter appears to be a classic candidate for a leveraged buyout because the cyclical nature of its business has long been rated low by the stock market. Its price earnings ratio last year averaged 8.8 – a discount of some 40 per cent to the Standard & Poor's 500 index.

Although its earnings per share so far this year have been running about 25 per cent ahead of year-earlier levels, the stock has suffered a further downgrading in recent months because of the impact of rising interest rates on new home sales.

For 1987, Jim Walter is expected to earn about $168m, or $5.20 a share, on revenues of $2.4bn, according to Value Line Investment Service.

For KKR, the Jim Walter bid represents the first major move since last month's departure of Mr Jerome Kohlberg and the creation of a huge new fund, said to be worth as much as $5bn, to fund new leveraged buyouts.

Because a typical buyout is financed with a debt-equity ratio of five times or higher, the size of KKR's new fund suggests plans for a major acceleration in its bidding activities.

Shearson Lehman lifts income with small advance to $61m

BY OUR NEW YORK STAFF

SHEARSON LEHMAN, the Wall Street investment firm which went public in May, reported a small increase in net income in the second quarter to June, with earnings up from $60.4m to $61.4m or 66 cents a share.

Shearson, which was trading yesterday morning at $27⅞ a share, well below the $34 price on shares offered the public in May, said that higher operating expenses and a higher tax rate offset a 23.2 per cent increase in revenues to $1.3bn.

Shearson, 61 per cent owned by American Express, yesterday appeared to have bucked a Wall Street trend, reporting a 17 per cent increase in revenues from market making and trading for its own account in "extremely volatile market conditions."

Other Wall Street firms have warned of large losses on trading bonds for their own accounts when interest rates soared at the beginning of the June quarter. E.F. Hutton, the luckless Wall Street brokerage house, yesterday joined their number with a sharply increased loss from operations in the quarter to June because of a collapse in bond trading revenues.

Hutton, which has been buffeted by a succession of problems since it pleaded guilty to a mammoth bogus overdraft scheme two years ago, reported losses from continuing operations of $17.3m in the June quarter as against losses of $7.8m last year, when it also suffered loss from trading fixed-interest securities.

However, Hutton took an extraordinary after-tax capital gain of $51.6m on the sale of its insurance business and a $9.8m tax credit, resulting in net income for the second quarter of $45.9m, or $1.39 a share. This compares with a net loss of $4.7m in the 1986 June quarter.

Total revenues at Hutton increased 27 per cent to $848.3m, thanks to strong growth in interest and investment banking income and higher fee income from fund management. However, the firm's revenues from trading taxable and tax-free bonds for its own account collapsed, with trading revenues as principal down from $26.7m to $3.8m.

Mr Robert Rittereiser, who took over as chairman this year, said: "Except for the decline in principal transaction revenues, due to April's difficult fixed-income trading environment, performance in all other areas of the firm was consistent with our expectations."

Lifeline for Canadian mainframe maker

By Robert Gibbens in Montreal

GEAC COMPUTER Corp. Canada's only sizeable mainframe computer manufacturer, has been saved by an immediate infusion of C$20m (US$15m) from Helex Investments, a venture capital group controlled by the Webster family of Toronto.

Geac expanded too quickly in the mid-1980s when orders bulged for its banking and library cataloguing systems.

Customers have included the Vatican Library, the Bibliotheque Nationale in Paris, the Smithsonian Institute libraries in Washington, the National Library of Portugal and many North American banking institutions.

But success outran management capabilities and the financial resources from 1984 onwards and, after a string of heavy losses, Geac went into receivership last December.

Geac shareholders accepted the refinancing proposals of Helex at a special meeting in Toronto and debenture holders agreed to convert C$15m of debt into common stock.

Helex has put in C$3.8m in loans, C$16.2m in new equity, and has the option of buying a further C$15m more in equity.

Helex will then have 49 per cent control of Geac and will take four out of eight boardroom seats. Geac will pay off most of its debt and arrange new lines of credit with banks.

Mr Harry Porteous, who took over the leadership from Mr Charles Williams late in 1986, said Geac now has a new computer system in production and most of the company's customers have remained loyal through the receivership.

Foreigners rush to Paribas

FOREIGN demand for Cie Financiere de Paribas' current issue of shares with equity warrants has exceeded expectations by nearly four times, an official of the recently privatised French financial holding company indicated yesterday.

The official said total foreign demand for the issue so far had reached nearly 15m securities – well above the 4m shares Paribas expected for the foreign tranche. He added that foreign demand was strongest from Canada, Japan and the US.

As reported, the Paribas offing covered a total of 7.5m shares priced at FFr 470($68) each and carrying a warrant to buy one additional Paribas share for FFr500. If all of the warrants were exercised prior to expiry on July 31 1989, Paribas would raise about FFr 7.3bn of fresh cash.

The capital boost took the form of a rights issue in France with current shareholders allowed to buy one new share for every eight they hold.

Paribas offered the remaining securities outside France in an effort to satisfy foreign investors who were frustrated by a scaling back of foreign orders during the French Government's privatisation of the group in January. The foreign placement was also aimed at broadening the group's foreign shareholder base to reflect the structure of its operations more closely.

Paribas stock closed in trading on the Paris bourse yesterday at FFr 462 a share, down FFr 2 from the previous session. Bankers indicated that the shares with warrants were indicated on the grey market in London at about FFr 520 each.

AMR shows steady progress at $92m

BY OUR NEW YORK STAFF

AMR, parent company of American Airlines, the third-largest US air carrier, made net profits of $92.2m or $1.51 in the second quarter confirming the gradual improvement in profitability throughout the US airline industry since last year.

AMR's net profit was $138m or $2.23 a share in the second quarter of 1986, but $40.3m of this came from the sale of assets. Excluding the one-time gain last year, AMR said the latest quarter's results represented a 5.2 per cent improvement on the year earlier period.

Operating income was up 29.6 per cent on a year ago at $161.8m, but interest payments have more than doubled to $25.4m from $12.1m, partly as a result of new debt taken in connection with the acquisition of AirCal, a West Coast regional carrier.

Mr Robert Crandall, company chairman, noted that strong passenger demand was the main reason behind the quarter's "favourable financial performance."

Revenue passenger-miles increased by 21.6 per cent to 15m and the average revenue per passenger-mile improved by 4 per cent to 10.45 cents. The airline's load factor also increased marginally from 66.8 to 67.4 per cent.

Mr Crandall said about one-quarter of the increase in passenger-miles was attributable to the inclusion of AirCal's operations.

AMR's total revenue increased by 20.6 per cent to $1.83bn, while operating expenses grew by 19.9 per cent to $1.67bn.

Wages salaries and benefits rose by 15.6 per cent, while the number of employees advanced by 24.2 per cent. AMR's total operating expenses per available seat-mile advanced by 1.8 per cent to 7.41 cents.

Motorola earnings rise 45% as demand grows

BY OUR NEW YORK STAFF

EARNINGS AT Motorola, the Chicago-based semiconductor and electronics group, jumped 45 per cent in the second quarter to $80m, or 62 cents a share, as demand strengthened for the group's semiconductor, communications and cellular radio products.

In the second quarter of 1986 Motorola made net profits of $55m, or 43 cents a share. Net sales revenues in the latest quarter were $1.639bn, 9 per cent up on last year's $1.49bn. Semiconductor sales increased 13 per cent; new orders rose 19 per cent; and the backlog was 14 per cent higher.

Demand was strong in all market segments and geographical areas with the exception of military applications, said Mr William Weisz, the group's chief executive.

Orders also improved 10 per cent for Motorola's communications products with demand particularly strong for large advanced two-way radio systems and radio common carriers, while the information systems division enjoyed 14 per cent sales growth. Cellular products performed even more strongly, with sales up 29 per cent and new orders 38 per cent.

Markets where Motorola experienced some weakening of demand included computer systems, automotive and industrial electronics and defence.

Philip Morris shares rise on buyback plan

By William Hall in New York

PHILIP MORRIS, the US tobacco and consumer products company, saw its shares surge on Wall Street yesterday after the group reported a 26.3 per cent rise in second-quarter net income to $476m and announced plans to spend $1bn buying back its shares.

Mr Hamish Maxwell, chief executive, said the group's US cigarette operations achieved higher unit volume sales and market share in the second quarter and first half of the year and Philip Morris International's operating revenues increased strongly.

"Overall cigarette unit volume, including exports, was higher than in the second quarter and first half of 1986, and the weaker US dollar again had a positive effect on foreign currency-denominated revenues," said Mr Maxwell.

The group's revenues rose by 8.8 per cent to $7.1bn in the second quarter and earnings per share rose 26.6 per cent to $2.

For the six months, Philip Morris' earnings rose 24.4 per cent to $862m, or $3.62 a share, and revenues rose 9.7 per cent to $13.7bn.

On Wall Street, Philip Morris shares rose by $2 to $95¼ in early trading yesterday.

Philip Morris' continuing strong performance overshadowed the second quarter results announced by rival RJR Nabisco yesterday, which increased its second-quarter net income by 18.1 per cent to $299m, or $1.16 a share.

But RJR Nabisco's second-quarter 1986 earnings were helped by a $23m contribution from discontinued operations and if this is included, its improvement in second quarter 1987 net income is less impressive. For the six months, the group's net income from continuing operations fell by 12.7 per cent to $391m, or $1.49 a share.

While RJR Nabisco's current performance is overshadowed by that of Philip Morris, it is continuing to boost its payout and yesterday increased its quarterly dividend by a fifth to 48 cents a share. RJR Nabisco's shares rose by $1 to $56 in early trading yesterday.

The group's sales rose by 4.9 per cent to $4bn in the second quarter.

First Republicbank down $313m in quarter

BY OUR FINANCIAL STAFF

FIRST REPUBLICBANK, the US banking group formed by the merger of Republicbank and InterFirst in June, has reported a second-quarter net loss of $313.2m. This made a loss for the first six months of $302.8m.

The bank said it made an addition to its allowance for loan losses of $325m, as expected, primarily for foreign loans. This increased the bank's loan-loss allowance to $1.15bn, or 4.5 per cent of total loans. No comparable figures were available.

Another Texas bank, First City Bancorp of Texas, reported a second-quarter loss of $114.1m, compared with a profit of $15.1m or 38 cents a share, reflecting a $106.2m provision for possible future loan losses. The company said its problem property loans increased in the second quarter as the Texas economic climate remained difficult.

Total non-performing assets increased during the quarter to $1.07bn or 11.4 per cent of loans,

Kloeckner to cut payout as profits drop sharply

BY OUR FINANCIAL STAFF

KLOECKNER, the West German trading company, yesterday announced a sharp drop in profits for 1986 and warned shareholders to expect a cut in the dividend.

Against a management forecast of a 20 per cent setback for profits, domestic group earnings for last year have emerged at DM25.6m ($13.8m), compared with the DM41.1m notched up for 1985.

The reverse is forcing Kloeckner to cut the dividend on its ordinary shares – most of which are held by family foundations – from 3 per cent to 2 per cent. The dividend on the recently created profit participation certificates is DM2.53.

●Feldmuehle Nobel, the industrial company formerly part of the Flick group, says first-half 1987 turnover has been more or less maintained at DM4.7bn.

It expects the disposal of its Dynamit Nobel unit to reduce turnover overall this year to around DM7.8bn, against DM9.6bn in 1986.

INTL: COMPANIES and FINANCE

Bourse raiders buzz La Generale

BY TIM DICKSON IN BRUSSELS

THE SHARE price of Societe Generale de Belgique hit a new peak of BFr 4,200 yesterday as stock market speculation continued to buzz round Belgium's largest commercial and industrial holding company.

Brokers expressed increasing puzzlement as to the motives of the unidentified buyer who, according to market gossip has been building up a significant equity stake over the last three to four weeks.

One analyst pointed out, for example, that the share price of "La Generale" as the group is known locally, now comfortably exceeds its net asset value while a senior official for the company itself effectively claimed that the recent hectic trading activity has been the result of a well organised "ramp."

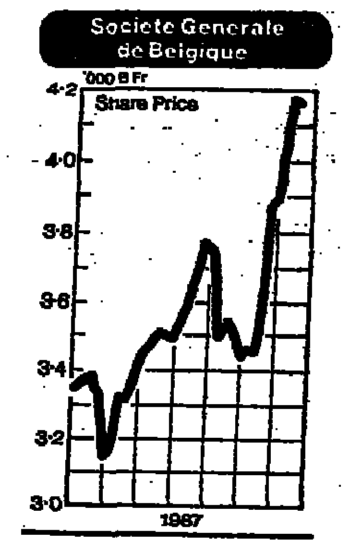
The fascination with events at Societe Generale, which began life 150 years ago as the country's central bank with the King of Belgium as sole shareholder, lies in its spider-like web of connections with all Belgium's major industrial and financial activities and its close links with all the big towns and regions of the country.

It consists of 1,267 stakes in other companies, some of them such as Union Miniere involving full control, but most of them minority holdings in businesses ranging from non-ferrous metals, financial services and energy to chemicals, diamonds, cement and transport.

A hostile foreign takeover of what is virtually a national institution is considered unthinkable in much of the Belgian business and financial community. But then the mention as mystery buyer of everyone from Britain's Lord Hanson to Italy's Carlo de Benedetti over the last few days raises precisely that exciting prospect for a local stock market which normally at this time of year has decamped to the seaside.

The fact that shareholders in Belgium do not by law have to disclose the size of significant stakes in companies—despite pending legislation to that effect adds an extra frisson of excitement to what has already proved an exciting (and to many a profitable) adventure.

The facts are that over the last four weeks turnover in Societe Generale has exceeded 1.65m shares, which compares with an issued capital of 24m shares. The company estimates that perhaps 1.2m shares have changed hands.



According to Mr Marc de Brower, head of research at stockbrokers Petercam, the net asset value of Societe Generale—the current value of the quoted part of its portfolio and potential capital gains expressed at current exchange rates—"is certainly not more than BFr 4,000 a share."

He adds: "We have no reason to believe that there is hidden value in the company, indeed possibly the opposite. There are potential losses in several companies which have not been performing well.

"If there is a buyer—and there seems to be one—we are at a loss to know what he is looking for."

An analyst at Puissant Baeyens Poswick, another Brussels stockbroker, agrees: "I see a lot of their companies such as ACEC, Fabrique Nationale and Gechem making quite big losses. It is quite difficult to understand why people are so interested."

Besides rumours of foreign predators—notably Axa the French insurance group which failed in its recent assault on the leading Belgian insurer Royale Belge—local investors are known to be active.

FLIN, a Luxembourg holding company thought to represent a group of Flemish investors and which has been attempting to influence events at the leading zinc group Vielle Montagne, is believed to have built up a stake of around 5 per cent, while Mr Albert Frere, dynamic head of the rival Groupe Bruxelles Lambert is far from ruled out by a number of observers.

Allianz seeks DM545m by rights offer

BY HAIG SIMONIAN IN FRANKFURT

ALLIANZ, West Germany's biggest insurance company, is to raise DM 545m ($298m) by way of a 1-for-6 rights issue, and to maintain this year's dividend at DM 12 per DM 50 share.

Shareholders are to be offered new shares at DM 250 a share in a transaction which will increase Allianz's nominal capital to DM 750m from DM 641m. The new equity, to be issued in October, will count for next year's dividend.

The company will simultaneously make a one-for-six issue of new profits participation certificates at an issue price of DM 26 each.

Allianz, which is Europe's largest insurer with DM19.2bn in gross premiums in 1986, has raised very large sums in the past year. In June 1986, it launched a DM 722m rights issue followed by a DM 2bn issue of profit-participation certificates the *following* month.

The company says it now requires further funds to keep its capital in line with the expansion of its business. However, there has been regular speculation about possible acquisitions. The company has grown rapidly abroad by buying groups like Cornhill in the UK and RAS in Italy, and has long been looking for a suitable purchase in the US, so far without success.

It could just be that Allianz is seeking to make the best of the recent more favourable climate on the stock market, where insurance shares have been out-performing the market as a whole. Allianz shares closed up DM 24 at DM 1,959 on the Frankfurt stock exchange yesterday, while reaction to unexpected rights issue, announced after the market closed, was muted in unofficial trading.

Ferruzzi plans large-scale reorganisation of interests

BY ALAN FRIEDMAN IN MILAN

FERRUZZI, the Italian agri-industrial concern, plans a large-scale reorganisation. It will involve the transfer of a number of trading, shipping, agricultural and industrial subsidiaries presently controlled by the Ferruzzi family to a single and publicly quoted holding company.

The plan, which will take two years to achieve, is to transform Agricola Finanziaria, the main Ferruzzi holding vehicle listed on the Milan bourse, into Ferruzzi Agricola Finanziaria.

The new umbrella company will be 52.5 per cent owned by the Ferruzzi family, with the balance held on the stock market. The new holding would then be quoted on the London, Paris and Frankfurt stock exchanges. The reorganisation would not see Ferruzzi requesting any funds from shareholders.

Ferruzzi is aiming to produce a consolidated balance sheet for FAF, but probably not until 1989. It remains unclear how Ferruzzi's 40 per cent equity stake in the Montedison chemicals group is to be treated.

Mr Raul Gardini, the head of Ferruzzi, revealed recently that Price Waterhouse had prepared a Ferruzzi consolidated balance sheet, which had been shown to various banks and to the UK Monopolies Commission. The Ferruzzi chief said he saw no reason to make this consolidated balance sheet public.

The family-controlled activities which are to be conferred upon Ferruzzi Agricola Finanziaria will include cereal trading, grain storage, bulk carriers, agricultural holdings in Italy, Brazil and Argentina, the Cica food processing subsidiary in Brazil and cement interests in Italy and Brazil.

Havas to link with Japanese, US agencies

By George Graham in Paris

HAVAS, the recently privatised French advertising company, is to link up with American and Japanese agencies to create a new worldwide advertising group. Eurocom, a Havas subsidiary, will form a joint venture with Young and Rubicam, the big US advertising agency, and Dentsu, number one in the Japanese advertising market.

The new venture, to be named HDM, will have offices in 19 countries and total billings of $1.07bn. HDM is strongly represented in continental Europe, the US and the Far East, and plans to acquire an agency in the UK.

Mr Alain de Pouzilhac, who will chair HDM, said in Paris yesterday that the aim was to create a genuinely international group which respected national cultures rather than following the approach of most American groups of building networks which remain centralised on the US.

HDM, although operating as a single agency, will be split by continent. In Europe, Eurocom will hold 51 per cent, Young and Rubicam 29 per cent and Dentsu 20 per cent. In the US Eurocom and Dentsu will hold 35 per cent each and Young and Rubicam 30 per cent. In Asia, Dentsu and Young and Rubicam will control 40 per cent each to Eurocom's 20 per cent.

The new group will be created by merging HCM, a joint venture set up in 1985 between Eurocom and Young and Rubicam, with DYR, a similar joint venture between Young and Rubicam and Dentsu.

Voest-Alpine continues to sustain heavy losses

BY JUDY DEMPSEY IN VIENNA

VOEST-ALPINE, Austria's largest state-run steel and engineering group, recorded substantial losses for 1986 and expects to stay in the red for the foreseeable future.

Turnover decreased from Sch 52.2bn ($4.05bn) to just over Sch 45bn last year—a fall of 13 per cent—and group losses for the year emerged at Sch 8.8bn, against Sch 11.8bn in 1985.

Between 1981 and 1985 Voest-Alpine ran up accumulated losses of more than Sch 20bn. It expects losses for 1987 to total around Sch 4bn.

In the meantime, the state will continue to subsidise the company, which employs more than 65,100 people. The state will provide Voest-Alpine was a subsidy of Sch 14.5bn until 1990. Thereafter the group will be on its own, according to recent government statements.

SKr 220m issue by Inter Innovation

By Sara Webb in Stockholm

INTER INNOVATION, the Swedish cash handling equipment company, is planning to raise up to SKr 220m ($34.4m) through a new share issue.

The company agreed to buy LeFebure, a US company which manufactures and sells security systems equipment, last month for $69m, and the new share issue is intended to cover part of the cost of that acquisition.

The company is controlled by the Lundblad family, which has 79 per cent of the votes and 65.5 per cent of the capital. Mr Leif Lundblad, chairman, has already indicated that he will not acquire further shares in the company.

Last year, Inter Innovation showed a pre-tax profit of SKr 75.6m

Formosa Plastics stays on course

Bob King reports from Taipei on the ambitious expansion plans of the world's leading producer of PVC and its founder, Mr Wang Yung-ching (right), one of the world's wealthiest men

TAIWAN'S Formosa Plastics group of companies, which ranks among the country's top five in terms of revenues, is in the midst of an ambitious US$1bn expansion project at a time when many foreign manufacturers of plastics are looking for ways to trim their losses.

The project—and, indeed, the future direction of the group—is the handiwork of Mr Wang Yung-ching, the company's founder, who has little taste for flow-charts, corporate strategy, or risky diversifications.

Mr Wang believes that keeping Formosa Plastics on its present course, and sticking to what it knows best, is what ensures its continuing profitability. Last year it made nearly $380m in pre-tax profits, and has been ranked by Forbes magazine as the world's leading producer of PVC.

The life story of Mr Wang, now aged 70, reads like a textbook study of the capitalist work ethic: by his own account, he did not even own a pair of shoes until he was 13. A young rice dealer during the Japanese occupation of Taiwan, he forced himself to rise earlier and work later than his competitors. He was thus able to expand his business at their expense.

Mr Wang's frugality and work habits have nowadays earned him a personal fortune estimated at $1bn, making him one of the world's wealthiest men. His flagships, Formosa Plastics and Nan Ya Plastics, are founded mostly on sales of polyvinylchloride (PVC) and related products.

Staying competitive in PVC has proven problematic for many Western producers, but Mr Wang plans to increase his output from the current 600 tonnes of PVC powder per day to 2,000 tonnes. At the same time, he is putting $1bn into a project that will give Formosa Plastics its own naphtha cracker to produce ethylene, the key ingredient in PVC, as well as related upstream and downstream facilities.

Work has already begun on the expansion project. The company has retained Stone and Webster of the US as consultant on the cracker project, and a government procurement mission now visiting the US has on its shopping list $600m worth of equipment for that project and other Formosa Plastics ventures.

If all goes as planned in about three years Formosa Plastics will operate the only privately owned naphtha cracker in Taiwan, with an annual capacity of 450,000 tonnes. All of that output is earmarked for the group's own PVC production and, together with its other new facilities, will allow it to control its production almost completely from the top down.

Although it sounds distinctly non-entrepreneurial, Mr Wang, who acording to most accounts still makes all the group's key decisions, is not in the least interested in diversifying into other areas. High technology, which Mr Wang says "the Americans are always talking about," he sees as an inappropriate way forward for the group.

That means continued concentration on plastics, which are extremely important to Taiwan's economy. Products manufactured on the island, most of which are destined for export markets, use a wide variety of PVC and similar materials in end-products such as synthetic leather, sheeting, and pipe, as well as a host of consumer products.

Given the demand, as well as what Mr Wang considers his strongest assets — a dedicated labour force and low cost levels —he sees no reason to forsake the comfortable harbour and risk untried waters

"If after some time people become less diligent and the company's competitive edge diminishes, then maybe Formosa Plastics will have to move in a different direction," he says. "If later Taiwan's economy and industrial environment get close to where Japan is now, then new questions will arise. Maybe at that point the Taiwanese should develop higher-tech products. The questions then becomes, can we? And can we make them competitive?"

Mr Wang's conservatism is also apparent in other areas. His business strategy relies more on an assessment of current conditions than on long-term projections. Aides say he professes to know nothing about strategic planning, and does business based on figures from the previous year and projections for only six months

Certainly, Mr Wang seems less keen to focus on specifics than he is to offer generalities about the Taiwanese industrial environment, its needs, and how Formosa Plastics is well-placed to fill those needs.

Despite his rather vague corporate guidelines, it appears that the performance of Formosa Plastics — a listed company, although most of the shares are closely held by the Wang family—is enviable. It had pre-tax earnings of $379.4m on sales of roughly $4bn last year. Return on capital was a healthy 37.5 per cent. These figures represent a significant improvement on 1985, when net earnings were only $210.5m on sales of $3.1bn.

Where the group will rank in world terms after its expansion is completed is anyone's guess —and Mr Wang, true to form, is not offering any projections. The company is wagering, though, that through its new naphtha cracking and related plants, it will be able to produce its primary products at less cost, and thus be able to maintain its competitiveness in an extremely price - conscious market.

Acquisition by Equiticorp

BY CHRIS SHERWELL IN SYDNEY

EQUITICORP TASMAN, the Sydney - based investment vehicle of Mr Allan Hawkins, the New Zealand entrepreneur, has taken a significant stake in Winterbottom Holdings, the Australian company which in turn has a 26 per cent interest in Newman Industries of the UK.

The 14.4 per cent stake is a result of both on-market purchases and a decision by Mr John Shepherd, Winterbottom's chairman and major shareholder, not to take up his full entitlement of a rights issue.

The A$31m (US$22m) issue was made by Winterbottom to help pay for the Newman interest. Equiticorp Tasman was a sub-underwriter for the issue, and, subject to approval from the Foreign Investment Review Board, will take up a further 4.9 per cent under the underwriting agreement.

The directors of both Equiticorp and Winterbottom welcomed relationship, and said Equiticorp will not want to take over Winterbottom or become involved with Newman.

JAL group loss deepens

BY YOKO SHIBATA IN TOKYO

JAPAN Air Lines (JAL), the national flag carrier, incurred a deeper group net loss of Y7.48bn ($50.4m) for the year to March, compared with a deficit of Y4.09bn for the previous year.

This was despite the previously reported return to pretax profits of Y3.65bn by the parent company, which had been forced into deficit in the previous year in the aftermath of the 1985 crash of a jumbo jet.

The consolidated net loss was attributed by the company to an increase of Y12.2bn in tax payments. Group sales fell by 5.3 per cent to Y875.72bn as the strong yen eroded foreign currency denominated revenues. However, lower oil prices brought substantial savings on fuel costs, JAL said.

The consolidated results covered 15 subsidiaries and affiliates including two new offshoots—Japan Air Lines Development (USA) and Hotel Nikko of New York.

Alexander Nicoll on proposed regulations for the Eurobond market

Underwriters face work to rule

THE EUROBOND new issue market, already undergoing big structural changes amid intense competition, will face an entirely new set of costs and constraints with the imposition of rules proposed this week by the UK regulatory authorities.

The international capital markets have known for some time that they would face new rules under Britain's Financial Services Act, so this week's publications will have come as no surprise. The markets have also known that their position risks would be subject to requirements based on historic price volatility.

For the first time, firms which have not been involved in compiling the rules will be able to assess exactly what is expected of them. The large groups, as leading members of the Securities Association — the self-regulatory body being formed for London securities markets — have contributed heavily to shaping the new rules.

All firms — the association will have some 700 members — face fairly simple calculations of position risk, and voluminous conduct of business rules which will force each firm to analyse exactly on what basis it is doing business with each of its customers and counterparties.

One of the most fundamental changes, however, will be in the underwriting of new issues, for which Eurobond firms have never previously had to allocate capital. Differences between the treatment of various new issue methods could encourage changes in market practice.

Several uncertainties still surround the rules. The treatment of secondary offerings and of UK domestic underwritings is still to be finalised. Levels at which firms need to notify regulators about new underwritings have yet to be set.

The association's rules for underwritings will run in tandem with, but will not be the same as, large exposure rules to be set for banks by the Bank of England, which is more concerned with concentration of credit risk by comparison with the securities regulators' concern with position risk and price volatility.

The rules published by the Securities and Investments Board—the umbrella investment regulatory body—and the association distinguish between international and domestic underwritings.

This is because domestic UK offerings tend to take the form of traditional UK underwritings, while international issues are more like placements: the issuing house buys securities from the issuer and places them, albeit usually with other issuing houses.

International underwritings are viewed as riskier than domestic issues: the period of a lead manager's commitment is longer; the assurance that sub-underwritings will be obtained is smaller; the risk of having to buy in securities or sell them at a loss is greater; and it takes longer to find out that an issue is in difficulties.

In general, the principle is that firms taking on lead managements of international issues have a short grace period during which they have no additional capital requirement, but that the requirement then reflects the extent to which they have not syndicated or sold an issue.

This is not the case, however, for pure "bought deals." For these, the regulators demand that the issuing house allocates capital amount to 50 per cent of the normal position risk factor for the securities concerned, from the moment that the house buys the deal until the allotment date. Amounts for which underwriting commitments have been received from other houses are subject to a requirement of 20 per cent of the position risk factor. Amounts sold attract no requirement.

Considerably more lenient treatment is given, however, to "*pre-priced deals*", *in which* the terms are fixed but the issuing house has not bought the securities but simply agreed to syndicate them.

No position risk requirement is applied until the beginning *of the third* UK day after the commitment is made. Then the requirement is only 30 per cent of the normal position risk factor less the amount syndicated or sold.

For "open-priced" deals — which would include convertible and other equity-linked bonds — the requirement is even less: a 30 per cent level is set only from the time that the pricing and other terms are fixed.

Most straight Eurobonds would fall into the bought deal category, but the new requirements could encourage pre-priced offerings.

TSA officials explained that the differences reflect the extent to which an issuing house is "on the book" to the issuer. *They said the plans have been* known to the International Primary Market Association, the Eurobond issuing houses' trade group, for some time and that it considers the requirements reasonable.

First Europaper daily benchmark index created

BY STEPHEN FIDLER, EUROMARKETS CORRESPONDENT

THE BANK of England and leading dealers in the market for Eurocommercial paper, grouped in the Euronote Association, have agreed to establish the first daily benchmark index for the paper.

The index, to be published by the Bank from mid-August, will apply to the issues of top-rated companies and bank holding companies in one, two, three and six month maturities.

Growth of the market has, it is thought, been hindered by the *traditional habit of using* interbank interest rates as the traditional benchmark for the paper, since interbank rates reflect views about the strength of the banking system.

For example, they rose earlier this year against other dollar interest rates following Brazil's February announcement that it would suspend interest payments on foreign debt. Eurocommercial paper thus became expensive compared with the US market for many companies.

The Bank is publishing full details of the index in its quarterly bulletin to be published in August.

The Bank will contact active dealers each day at around 1.30 pm and obtain from them an average execution rate for top-rated companies and banks. It will publish the results daily on Reuter screens at 4 pm.

Only borrowers' rates A1 or *P1 by Standard & Poor's* or Moody's will be used. No issues with a split rating will be incorporated. The new E1 rating of Euro-ratings, the new European-based rating agency, will be considered for inclusion in the near future.

Eurocommercial paper outstanding is estimated at up to $35bn, still one-tenth of the size of the US commercial paper market.

Tokyo to permit Euroyen commercial paper market

BY YOKO SHIBATA IN TOKYO

THE JAPANESE Ministry of Finance is understood to have agreed to permit a market in Euroyen commercial paper (CP) from next April as part of its efforts to promote the internationalisation of the yen.

Initially Euroyen paper issues will be confined to non-resident corporate borrowers. Japanese companies will be allowed to issue the paper at a later stage.

Officials at the Ministry's *International* Banking Bureau said yesterday that the long-term Euroyen bond market had expanded satisfactorily, thanks to the deregulatory measures introduced last April. The ministry believes that the restructuring of the Euroyen bond market *is now almost com*plete.

Euroyen bond issues in 1986 totalled Y2,900bn, more than 1.8 times the previous year's total.

The MoF's next task is to establish medium-term and short-term markets in Euroyen to make the sector a balanced part of the international capital market.

*However, creation of a Euro*yen CP market is likely to further fuel the continuing demarcation dispute between the securities houses and banks over which of them will be allowed to underwrite and deal in the paper.

Japanese banks, at least on the surface, remain adamantly opposed to the introduction of a domestic commercial paper market because they see this as a green light for the securities houses to enter the short-term lending business.

However, the banks are to be allowed to underwrite Eurodollar and sterling paper from next February.

Two primary dealers link to offer gilt warrants

By Janet Bush

SALOMON BROTHERS and Samuel Montagu will jointly launch the first issue of warrants for UK government bonds on Monday through *their* gilt-edged primary dealers, Salomon Brothers International and Greenwell Montagu Gilt-Edged.

The Bank of England paved the way for the issue of gilt warrants—tailor-made options—earlier this month when it set out a regulatory framework. Next Monday the requisite stock exchange rule changes come into effect.

Several securities houses are believed to have expressed their interest in issuing warrants, and the Bank is believed to have authorised the Salomon/Samuel Montagu joint venture specifically as the first issue to prevent a confusing rush of offerings at the opening on Monday.

It seems highly likely that other houses will launch their issues once they have seen how the Salomon/Samuel Montagu warrants are received — perhaps within hours, depending on market conditions.

The joint venture which yesterday started pre-marketing the issue, *is believed to* be the first time two primary dealers in gilts have co-operated in a business venture.

The combination of a substantial US securities house, which can tap a large international client base, and a leading British primary dealer with long-term experience of the gilt market seems to be an auspicious one.

Salomon has previously brought to market 14 issues of similar warrants for US Treasury securities. Samuel Montagu, through its gilt-edged market maker Greenwell Montagu, is a leader in shorter-dated over-the-counter options on gilts and sterling.

Salomon Brothers International, the UK arm of Salomon Inc, the ultimate issuer, will lead manage, with Samuel Montagu as co-lead. Both houses are committed to making a secondary market in the warrants.

Monday's issue is likely to consist of 1,000 one-year warrants each to purchase £100,000 in principal amount of 8¾ per cent Treasury stock due to mature in 1997 and 1,000 to sell the same stock.

The warrants will be "American style," exercisable at any time during their life. The initial price will be announced on Monday.

The price of the call warrants will be based on the cash price at 09.00 on Monday of the 8¾ per cent Treasury stock 1997 plus two points, while the put price will be the cash price minus two points.

Ministry silent on applications for TF1 issue

By George Graham in Paris

A WEEK after the offer for sale closed, the French finance ministry has still given no figures on the success of *the privatisation of TF1*, the country's leading television station.

Financial markets are convinced demand for the TF1 shares was weak, but officials insist that the results were satisfactory and that the issue *was at least twice subscribed.*

Following the enormous success of previous French privatisations, in which only individual investors received an allotment of shares, the FFr 1.7bn TF1 flotation looks likely to be the first where institutions will receive some shares.

● Matra, the French electronics and defence group, has officially joined the list of companies to be privatised.

The French Government has called for bids from banks wishing to advise on the sale of its 50.1 per cent stake in the company, which is expected to take place in the autumn following the privatisation of Suez, the banking and investment group.

ADB launches SFr floater

THE AFRICAN Development Bank has launched its first subordinated issue in Swiss francs as part of a $840m borrowing programme in 1987, Peter Blackburn writes from Abidjan.

The SFr100m seven-year floating rate issue is lead managed by Swiss Bank Corporation and carries an *interest rate of ¼ per cent* above six-month London inter-bank offered rate (Libor).

"It is part of a pattern to develop subordinated borrowing in various capital markets," said Mr Milan Kerno, the AFDB's vice president for finance. The bank, based in Abidjan, has already made subordinated US dollar and Deutsche Mark borrowing and plans to make a similar yen issue later this year.

Subordinated debt was introduced by the bank in 1984 to enhance its borrowing capacity without endangering its high credit rating.

Firm response for $150m British Telecom issue

BY CLARE PEARSON

BRITISH TELECOM and Citicorp both launched sizeable Eurodollar bond issues yesterday, as US Treasury bond prices attempted a rebound after the sharp sell-off triggered on Wednesday by disappointing US trade *figures*.

Yesterday's $150m seven-year bond marked British Telecom's return to the Eurobond market after a debut last August. The widespread popularity of the borrower's name among international investors since its privatisation three years ago ensured a firm response, despite the market's current dislike of Eurodollar bonds with longer maturities, and this isue's tight terms.

The 8⅝ per cent bond was priced at 101⅞ to give an initial yield spread of 52 basis points over US Treasury bonds, while issues for other triple A rated names were trading at levels at least 10 basis points higher. But the bond, led by Morgan Stanley Internatinal, was still quoted just within the 1⅞ per cent fees at *99.90* bid.

Mr David Harrison, BT's finance manager, said the proceeds had been swapped into floating rate sterling. They were not ear-marked for any specific purpose, but had been borrowed in anticipation of future cash requirements, such as the company's *£2.3bn* capital spending programme, tax bill, and dividend payments. The issue was launched through British Telecom Finance.

Meanwhile Citicorp's three-year 8year 8¾ per cent $200m bond also met a fair response, despite dislike of US bank names in the market.

Citicorp has been a frequent borrower in the Eurobond market, often on tight terms, but this issue marked its first Eurodollar bond this year, and was generously priced. With an issue price of 101⅛, it provided an initial yield margin of 106 basis points over UST reasury bonds.

The deal, led by Merrill Capital Markets, was quoted at less 1⅞ *bid*, the level of its total fees.

Nomura International led two more equity-linked bonds for Japanese companies, after having broken its moratorium on Japanese equity warrants issues earlier this week with a $200m deal for Sumitomo Chemical. This bond was quoted at around less 6 bid.

Nomura did not provide an initial trading level in its $50m par-priced five-year bond for Mizuno, a sports equipment maker. This issue bears an indicated 2¼ per cent coupon, about ¾ point above the level at which many other recent Japanese equity warrant bonds had been priced.

INTERNATIONAL BONDS

Nomura also led a $70m convertible for Koa Fire and Marine Insurance, maturing in March 2002 and priced at par. The deal, whose final terms will be fixed on July 23, was said to be the first convertible for a Japanese insurance company and traded comfortably within fees at less 1⅞ bid.

Its coupon is indicated at 1⅞ per cent, the same level as yesterday's fix on Sumitomo Trust and Banking's recent convertible. Sumitomo said this had been set at the indicated level, despite the bond's strong performance in the primary market, "to show a *lead in* price fairness" given the current difficult market in dollar-denominated equity-related Japanese bonds.

In however, Swiss Bank Corporation set a ¼ per cent semi-annual coupon on Sumitomo's SFr 350m convertible issue. This was the lowest ever coupon on such a bond, but nevertheless the deal traded at issue price bid.

Yamaichi International led a $70m five-year equity-warrants bond for Toyoboo, the Japanese textiles group, with an indicated 2¼ per cent coupon. It was quoted at less 3 bid.

Société Générale led a C$83m eight-year 10 per cent *issue for* the European Coal and Steel Community, priced at 100½. A trading level was not available yesterday.

Banque Paribas Capital Markets led an Ecu 100m three-year 7¼ per cent bond for New South Wales Treasury Corporation, priced at 101½. Paribas said it had made good sales of the bond to European investors, although a number of houses had turned down participation in the deal.

D-Mark Eurobonds ended the day narrowly mixed in low turnover.

In Switzerland, prices of selected issues rose by about ¼ point and short-dated bonds were in demand.

Union Bank of Switzerland led a SFr *150m* 15-year issue for the Province of Newfoundland. The 5¼ per cent callable bond, priced at 100½, struck dealers as reasonably priced.

ITW raises funds for deal

ITW, THE US metal and plastics components company, is raising $300m from international banks to help finance an acquisition, Stephen Fidler, Euromarket correspondent writes.

The financing, a five-year multi-option facility, is being arranged by First Chicago. It will back up ITW's US commercial paper programme and a proposed Eurocommercial paper programme.

The facility includes a tender panel for advances, a revolving credit and a swing-line credit.

It is to refinance some of the debt it took on for its $524.1m takeover of Signode.

The terms on the committed portion include a facility fee of 8 basis points, and an interest rate margin of 12.5 basis points. There are utilisation fees of 5 basis points if more than one-third of the credit is used and 10 basis points if this rises to over two-thirds. Participation fees range down from 8.5 basis points.

ITW was formerly Illinois Tool Works. It has operations in more than 30 countries.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on July 16

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Only one market maker supplied a price.

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Xerox input prompts Rank's surge to £90m

BY DAVID WALLER

A STRONG performance from Rank Xerox helped the Rank Organisation increase its pre-tax profits by more than a quarter to £90.1m in the 28 weeks to May 16.

Rank Xerox contributed £60.4m to group profits, against £40.8m in the first half of last year. Trading profits from Rank's directly-managed businesses were £33.2m (£30.1m) on turnover of £256.4m (£225.1m).

Significantly ahead of stockbrokers' most optimistic forecasts, the results prompted an initial 50p rise in Rank's share price. The shares closed up 4p at 820p.

Earnings per share rose by 16 per cent to 22.9p, and the interim dividend was raised by 1p to 7.25p. The tax charge was £37.6m (£27.1m), 42 per cent of pre-tax profits, reflecting the 58 per cent tax rate payable on profits from Fuji Xerox.

Mr Michael Gifford, Ranks *chief executive, said that* favourable currency movements —in particular, the strength of the yen against European currencies—accounted for much of the 48 per cent rise in the contribution from Rank Xerox.

Excluding the effect of currencies, the *underlying* growth in profits was 12 per cent. Profits at Fuji Xerox rose by more than a half.

"This is a very competitive market subject to considerable currency volatilities," said Mr Gifford. "Nevertheless we are cautiously optimistic that Rank Xerox will build on this first half and will continue to grow."

Rank gives no divisional breakdown of its managed businesses at the interim stage, but said that the film and television division showed an overall 4 per cent increase in trading profits.

Trading profits at precision industries declined by £1.3m; however, profits from hotels and catering rose by 54 per *cent following a reversal of the* "Libya effect," which had depressed occupancy levels

Profits from holiday and recreation were 60 per cent ahead, reflecting a strong contribution from the 36 bingo clubs and 42 high street amusement *centres bought last June for* £67m from the Ladbroke Group.

The figures include no contribution from Butlin's and the other seasonal holiday businesses, for which profits are recognised in the second half. Just less than 1.5m holidays have been booked so far this year, a slight decline against last year.

Capital expenditure in the first half amounted to £100m, resulting in an increase of £2.8m in the interest charge to £4.3m.

● Shares in A. Kershaw, 82 per cent owned by the Rank Organisation, rose 34p to 434p yesterday after the company announced pre-tax profits up to £1.77m (£1.38m) for the half-year.

See Lex

PFPUT agrees on EGM to discuss Trafalgar proposals

BY NIKKI TAIT

A POTENTIAL row betwen Trafalgar House, the shipping, *property and construction* group, and Pension Fund Property Unit Trust, the institutionally-held fund for which it is bidding, was defused yesterday after PFPUT agreed to call an extraordinary general meeting within 28 days to discuss Traflagar's proposals.

But PFPUT failed to prevent 90 minutes of hard questioning at its annual meeting as some 50 fund managers attempted to ascertain the value of their investment and clarify the options open to the fund.

The decision to comply with Traflagar's request was taken late *on* Wednesday, after the bidder had sent a copy of draft resolutions to PFPUT's committee of management (CoM).

Trafalgar *director,* Mr *Ian* Fowler, then said relatively little at the meeting, with his main questioning centred on whether the PFPUT board *would now meet Trafalgar,* and whether any further infromation about major properties in the portfolio would be forthcoming.

On both scores, he hit stonewall. "So you're still not willing *to* talk to Trafalgar House?" he challenged. "I'm not prepared to answer that," said Mr Cecil Baker, retiring chairman of

When a Hill Samuel unitholder queried the legal viability of part of Trafalgar's proposals, Mr Fowler reiterated his company's wish "to get together and make sure the resolutions are appropriate." He got no more than an assurance that a meeting would have to be considered.

Unitholders, though, appeared to share Trafalgar's desire for guidance on the true worth of PFBUT. Mr Baker said yesterday that the market value of its properties had reached £222m—a mid-price of £3,804 a unit—by July 14 with two City properties (City Gate House and 85 Gracechurch St) now accounting for 38 per cent of the portfolio.

The Trafalgar bid—declared final and needing the backing of 75 per cent of Pfiput's votes —offers £2,650 in cash or a similar amount in shares plus an *as-yet-unspecified* premium.

But time and again, in response to unitholders' requests for guidance by the CoM over the *underlying potential* values of the portfolio, Mr Baker said it would not be proper—or possible—to disclose this information. "Did Pilkington open its books?" he demanded.

If the Trafalgar proposals fail, the CoM plans to call another meeting by the end of September. Mr Baker outlined *four options:* to continue *as* at present, to become an authorised trust, to incorporate, or to liquidate the portfolio. PFPUT, he revealed, had received 11 other approaches, though no details were given.

Afterwards, Kleinwort Benson, Trafalgar's advisers, said that they would hope to make clear the unspecified "premium" *element in the bid* by the egm, but would still like some more information from the committee.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetable.

TODAY

Interims: Anglo and Overseas Trust, Greenfriar Investment, Tribune Investment Trust.

Finals: Applied Holographics, Bristol Channel Ship Repairers, G. M. Firth, Jermyn Investment, Mountview Estates, Park Food, Thorpac, Turnbull Scott.

FUTURE DATES

Interims—	
Charterhall	July 20
Darby Trust	July 23
Fleming Fledgling Inv. Trust	July 22
IMI	Sept 8
Yorkshire Chemicals	Aug 4
Finals—	
Boscombe Property	July 23
Helton	July 21
Watsham's	July 31

Adler anger over golden handshake

By Clive Wolman

MR LARRY ADLER, the *chairman of FAI Insurances,* the Australian company which has a 14 per cent stake in the merchant bank, Hill Samuel, yesterday sent an angry letter to Sir Robert Clark, Hill Samuel chairman, complaining about its proposed golden handshake for Mr Christopher Castleman.

Mr Castleman resigned last week as chief executive of Hill Samuel in protest against negotiations which have started with the Union Bank of Switzerland over its possible purchase of Hill Samuel.

Mr Adler says: "FAI does not think Mr Castleman's actions are justified. It is for the shareholders to decide whether or *not they wish to* sell their company."

Mr Adler also protests against Hill Samuel's statement that Mr Castleman would receive a generous retirement payment. "It would appear that there is no legal or moral obligation on Hill Samuel to give him this benefit," the letter says. *It says that any such payment* should be approved by shareholders, rather than merely being reported in next year's accounts.

On the UBS proposed takeover bid, Mr Adler says that FAI has not yet decided what terms would be acceptable to it. However, he says that if no agreement is reached, Hill *Samuel's position* as an independent company would be extremely vulnerable in view of the departure of Mr Castleman.

Sir Robert Clark said last night that no decision had yet been made on the size of the payment to Mr Castleman. "We have acknowledged Mr Adler's letter," he said. "We *do not think there is* anything further to say at this time."

United Packaging receives approach

By Steven Butler

Shares of United Packag*ing soared 55p yesterday* to close at 200p, prior to an announcement that the company had received an approachh which might or might not lead to an offer for the company.

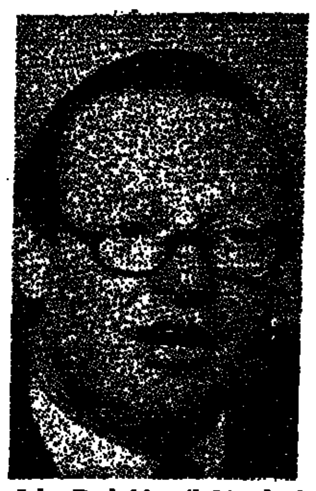
Mr E. I. Ascher said yesterday that the company had received several approaches in recent years. Mr Ascher, who *is* 78 years old, holds 78 per cent of the company, and the shares trade in a thin market.

David Lascelles on the rise of B & C and the end of Mercantile House

Gunning for fund management

IF THERE were simpler ways for British & Commonwealth Shipping to buy a fund management business, then Mr John Gunn could not find one.

Instead, he has been obliged to take the long route of bidding *for one* of his chief rivals, Mercantile House, plucking out its Oppenheimer fund management arm, and disposing of the remaining two-thirds. *In the* process he will break up one of London's best-known financial conglomerates and unpick nearly 10 years work by its chief executive, Mr John Barkshire.



John Barkshire (left), chief executive of Mercantile House, and John Gunn, chief executive of B&C.

Small wonder that the deal was viewed in some quarters of the City yesterday as a bit bizarre. But the City has learnt to expect surprises from Mr Gunn, and he carries enough credibility for people to search for the logic in his deals, rather than the folly.

The £490m deal fits Mr Gunn's strategy—adopted when he took *over* last year—of building B&C, once a cosy family-owned shipping concern, into a major financial services group. Oppenheimer *will be combined* with Gartmore, B&C's existing fund management business, to create what is likely to be the largest UK-owned fund management group. According to Mr Paul Myners, Gartmore's chief executive, it will also rank sixth or seventh in the world.

The combined operation will have about £10bn under management, of which £3.5bn will come from Gartmore. Geographically, Mr Myners said, the groups fit well because Gartmore is *strong in* the UK and Australia, while Oppenheimer's market is the US (Mercantile House acquired it as part of a Wall Street investment bank, since re-sold). Gartmore is also in pension fund management while *Oppenheimer's* strength is in unit trusts, a business in which B&C sees good growth and profit potential.

But to achieve this goal, B&C is having to find buyers for two-thirds of Mercantile House, which has interests ranging all the way from money *broking to the discount market.* A large part of the group, Alexanders Laing & Cruickshank Holdings, is being bought by Credit Lyonnais (see below).

The remainder of Mercantile consists principally of its money and foreign exchange broking business which overlap almost exactly with B&C. There is M. W. Marshall, the world's second largest money broking group after B&C's own Exco, and the William Street group *which covers Mercantile's* US operations including an inter-dealer broker in the US treasury bond market, again areas in which B&C is strong. Even without monopoly considerations, most of this would be superfluous to B&C and would need to be sold off.

No buyer for the broking side of Mercantile was named yesterday, but Mr Gunn says he knows several *institutions who have* expressed interest and would be suitable. "If anybody knows how to sell a money broking business, it must be us," he said.

Assuming successful disposals, one important result of the deal for B&C will be large cash proceeds, probably well over £250m. The precise sum realised will, of course, determine how much *Mr Gunn actually pays for* Oppenheimer, but he was refusing to put a figure on that yesterday, claiming that the range could be as wide as £100m

The realisations will be available to fund the ambitious plans which Mr Gunn has laid for B&C, which already has considerable liquid resources (about *£400m*), and a market capitalisation of over £2bn, more than the Midland Bank. marked for the new investment banking operation which B&C has just launched after poaching several executives from Guinness Mahon, a rival merchant bank. This bank, which will be called British & Commonwealth Merchant Bank (B&CMB), will be linked to a development capital business for which £250m has been earmarked over the next three years. A further £200m will be invested over the same period in Bricom, its *newly-formed* commercial and industrial services subsidiary. Over the next four years, B&C is also paying £427m to buy back most of the interest in the company held by the Cayzer family, its founders.

But while B&C *heads* for new heights, the deal marks the end of Mr Barkshire's Mercantile House. Although the company once symbolised a new type *of* entrepreneurship in the City and embodied what many people considered to be the financial conglomerate of the future, it had seemed to lose its way recently.

Some blame this on Mr Barkshire's vain attempts to transform Mercantile into a global institution, a role for which it plainly lacked the *capital.* Others say his many tactical skills did not include the ability to motivate people sufficiently. The mounting rumours of imminent takeover and break up were bound to affect staff *morale.*

It is ironical that, in the end, Mercantile should fall prey to its biggest rival. But Mr Barkshire was *philosophical* yesterday. He said the deal was "entirely friendly." He went on: "The break up of a company you created inevitably has an element of sadness." But he consoled himself with the thought that *Mercantile* was sufficiently attractive to have lured several suitors. Moreover, shareholders who backed him at 37p a share back in 1979 will be getting 519p from B&C.

Credit Lyonnais' ambitious City swoop

Credit Lyonnais' deal to buy Alexanders Laing and Cruickshank Holdings (ALCH) represents one of the most ambitious foreign acquisitions in the City, writes David Lascelles, Banking Editor.

If the £75m deal goes through, the large French bank will end up owning a large bagful of businesses, *including* a sizeable stockbroking operation, a discount house, a primary dealer in the gilt-edged market and various subsidiary businesses in options and futures. It will also vault *Credit Lyonnais* ahead of most other Continental banks in terms of the size of its presence in the City, where it has been a slow starter.

Under its new chairman, Mr Jean-Maxime Leveque, Credit Lyonnais has become much more aggressive in its approach to international expansion and investment banking, and it has been *studying a possible* acquisition in the UK for some time. The talks with Mercantile House about a possible purchase of ALCH were initiated some time before B&C made the approach to Mercantile last week.

Mr Philippe Souviron, the executive vice president in charge of investment banking *yesterday said that Credit* Lyonnais would try to alter ALCH as little as possible. "This is not a question of us swallowing ALCH," he said. There will be no "golden handcuffs" to keep key people from leaving, though ALCH executives are likely to get better financial incentives than they did under Mercantile.

The major part of *ALCH* consists of Laing & Cruickshank, the stockbroking firm which Mercantile bought for last year's Big Bang for £25m. It is best known *for its* equities business and research. It is also *active in the commodities and* futures markets, and has an investment management and private client business. Mr *Mark Powell,* the chief executive, says that the deal with Credit Lyonnais will give his firm capital backing and access to international markets on a scale that would not have been possible with Mercantile.

Apart from France, where Credit Lyonnais, along with the other large banks, is a key institution in the investment markets, the bank has a 40 per cent interest in a Wall Street investment bank and has *obtained a licence to deal in* securities in Japan. But it has yet to create a major reputation in the international capital markets.

Alexanders, the discount house which comes with the group, is one of the select but dwindling members of the discount market. Credit Lyonnais will have *to* decide what to *do* with Alexanders because the discount market will be opened up to all-comers in the next year or *two,* and *its franchise* will disappear.

The third component of the group is Alexanders Laing & Cruickshank Gilts, one of the 26 official primary gilts dealers. The acquisition will plunge *Credit Lyonnais into* one of the most competitive markets to have emerged from Big Bang. It will also become the first French bank to enter that market.

Credit Lyonnais has not bought a business that will reap quick profits. Mr Powell said that ALCH's performance since *Big Bang had* been "patchy", particularly in the gilts and discount markets where conditions have been tough, though "we're making money overall". He said that ALCH expected to make "serious money in five years".

D C Cook placing on USM

BY JANICE WARMAN

D. C. Cook (Holdings), the UK's largest Nissan dealer, is coming to the USM via a placing which values the company at £27.07m.

The Rotherham-based company will raise £2.5m new money net of expenses with a placing of 4.9m shares at 92p per *share, 20.75 per cent of the* enlarged equity. Existing shareholders are raising £1.55m.

The group, which also specialises in financial services and property, has boosted turnover from £17.91m in 1983 to £84.54m in 1987 and turned its 1983 loss of £143,000 after selling off caravan centres and low volume petrol station sites into a profit of *£2.5m for* the year to April 30. It has nine Nissan outlets and two Austin Rover

Mr Derek Cook, chairman, opened a spare-parts workshop in Wath-on-Dearne in 1966 and in 1971 was given his first *Nissan franchise.* The *company* sold 5,000 Nissan cars last year and should sell more than 7,000 this year, he said. With Austin Rover and used cars the sales total should rise to 17,500.

The proceeds of the issue *would be used to reduce* borrowings and to broaden the company's equity base for expansion and growth, said Mr Cook. "We are a company in a hurry," he said. "We are looking for good family run *businesses in car dealing* and insurance broking."

The Nissan assembly plant at Washington, Tyne and Wear, would benefit the group as from January cars produced there would no longer be subject to import controls, he said.

No profit forecast is being made but directors intend to declare and recommend total dividends for 1988 or not less than 2.85p per ordinary share, giving a gross dividend yield of 4.25 per cent. The historic p/e at the placing price is 14.61 times on an actual tax charge of 33 per cent.

Dealings are expected to begin on July 23.

Sponsors to the issue are *Singer and Friedlander.* Brokers are Panmure Gordon.

Possible offer for Miss Sam

By Richard Tomkins

Shares in Miss Sam, the fashion company, rose by 32p to 192p yesterday in the run-up to an announcement that it was *in talks with another* party which could lead to it becoming the subject of an offer.

The company designs and supplies women's and children's fashion-wear to high street *retailers and mail order companies* in Britain and overseas.

It came to the stock market only eight months ago in a flotation marred by legal hitches which held up the placing. It made pre-tax profits of £2.4m in the year to last September.

BOC in joint venture

BOC Group has formed a joint venture with KOC Group of Turkey to create a new gases company in that country.

The new company has been set up with Aygaz AS, a KOC subsidiary, and will be called Birleski Oksijen Sanayi AS (Consolidated Oxygen Industries). BOC and Aygaz will each have a 50 per cent stake in the venture. BOC's commitmen to the venture is close to *£10m but further investments* are anticipated.

The new joint venture will be commissioning the largest *merchant* market plant in the country at a new industrial site close to the main centres of demand between Istanbul and Izmit.

The KOC Group sales last year were TL 2,386bn (£2.2bn). It is a diversified and highly successful group operating through 116 companies. Aygaz AS is a major distributor of LPG (liquid petroleum gas) and bulk chemicols, having approximately a 35 per cent *share of the Turkish market.* The company owns and operates 11 LPG storage and filling facilities at various locations, and three *sea-going* tankers and more than 70 road tankers.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div	Total for year	Total last year
Dewhurst ....int	0.47	Oct 1	0.4	—	1.2
Hampson Inds	1	—	0.82*	1.38	1.13*
Jack Israel	*0.5‡*	*Sept 3*	*0.5*	*0.5*	*0.5*
Jones Stroud	6.5	—	5.5	10	8.5
A. Kershaw ....int	4.75	—	4	—	15
London Shop Prop ...	4.65	—	4.05	6.2	5.5
Rank Organ ....int	7.25	—	6.25	—	18
River Mercantile ...int	‖1.3	—	2**	—	6.2**

Dividends shown pence per share net except where otherwise *stated. * Equivalent after allowing for scrip issue. † On capital* increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Third market. ‖ Capital reorganised. Dividends now to be paid quarterly with three payments of 1.3p and a final of 1.77p forecast. ** On 25p shares.

River & Merc. assets up

Net asset value per capital/ordinary share of River and Mercantile Trust at end June 1987 was *248p* compared with 209.1p a year earlier and 212.9p at December 31 1986.

Gross revenue for the six months to June *30* totalled £3.47m (£2.73m) and net revenue before tax was £3.06m (£2.38m); after tax *of £865,000* (£731,000), preference dividends of £26,000 (same) and stepped preference dividends *of* £634,000 (nil) there was £1.53m (£1.62m) earned for ordinary/income, or 2.67p (3.37p) per ordinary/income share.

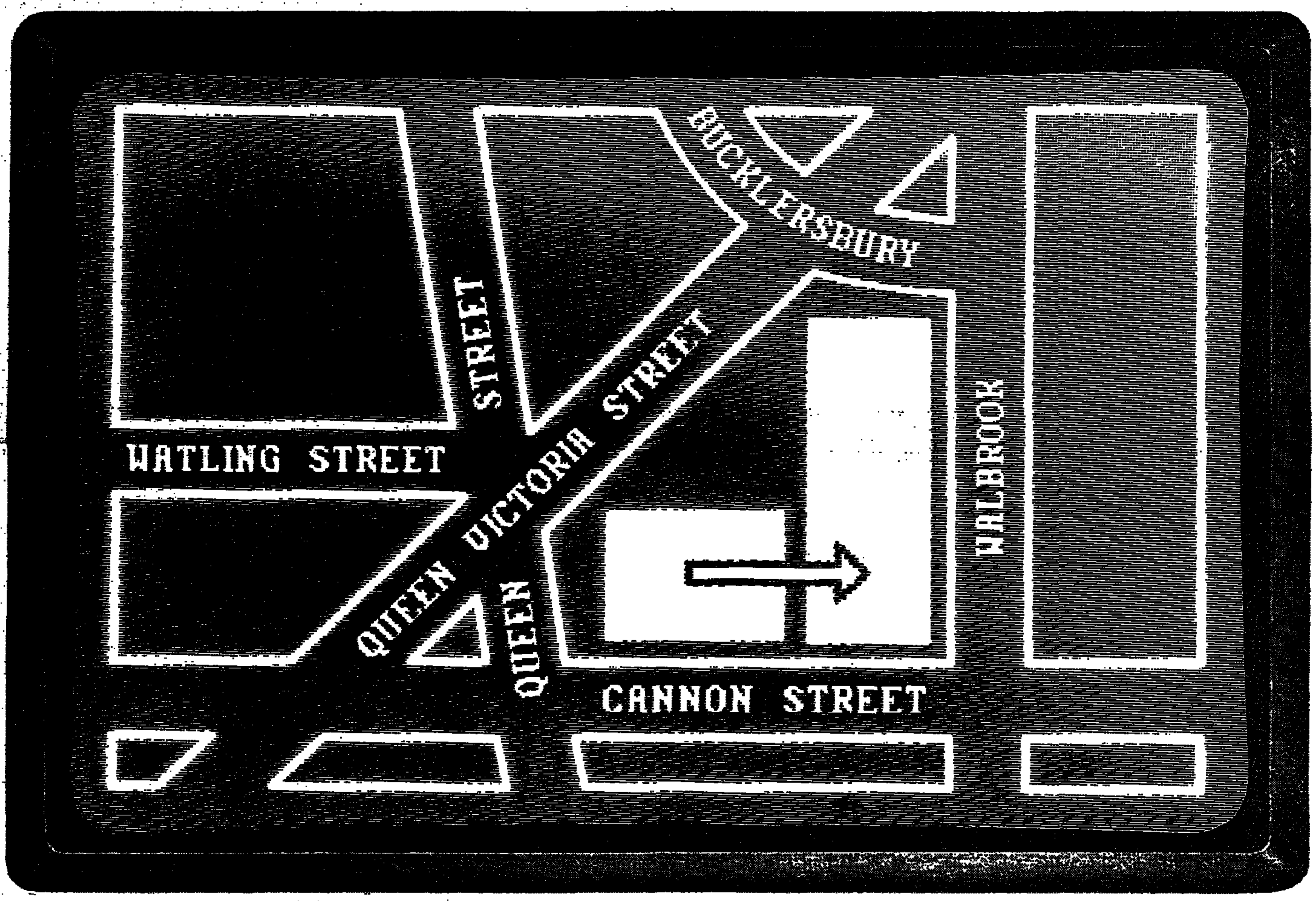
In May last the company's share capital was reorganised into a split level *investment* trust, designed to eliminate, substantially or completely, the historic discount in market *value of the ordinary shares to* their underlying net asset value.

Dividends will be paid quarterly on the income shares with three payments of 1.3p in July, October and the following January. The directors expect to recommend a final of *not* less than 1.77p payable in April 1988, making a total of 5.67p.

CAMELLIA INVESTMENTS is reducing its holding in Norman Hay by the sale of 0.4m shares at Norman Hay's request. The shares have been placed with *institutional clients* of Capel-Cure Myers. Following the disposal Camellia will retain an *8.1 per cent interest in Norman* Hay.

CHARLES BAYNES has disposed of its 75 per cent holding in Baynes Business Travel to Mr and Mrs P. M. Garner as trustees. The consideration is £1 and the purchasers will *also repay £50,000 in cash,* at completion and a further £50,000 over five years in settlement of certain inter-group loans.

Legal & General Investment Management.



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UK COMPANY NEWS

Authority's profits surge to £1m after reorganisation

BY JANICE WARMAN

Authority Investments, the banking and property group, produced pre-tax profits of £1m, more than six times the 1986 total, after the new management's first year of reorganisation.

Mr David Blackhouse, formerly of the insurance group Allied Dunbar, took over as chairman at the head of a new team in August 1986, and has restructured the group into three operating divisions, banking and financial services, property and strategic investments.

The board announced a 16.3 per cent rise in earnings per share to 19.3p, and said it planned to pay the group's first dividend since 1975 at the current year's interim stage following High Court approval in June of the elimination of the company's profit and loss account deficit.

The group used £4.1m of the proceeds of its £10.25m April rights issue to acquire a 51 per cent stake in the Jersey-based trust fund City Management, and used the balance to expand its central London residential portfolio.

Turnover for property and investments for the year to April 30 fell from £8.18m to £7.97m. Operating profits fell from £4.23m to £3.76m, but lower interest payments of £2.94m (£4.1m) pushed pre-tax profits up more than sixfold from £127,000 to £822,000. In banking services profits rose from £27,000 to £181,000.

Mr David Innes, managing director, said that City Management was performing well and would contribute to the current year's figures. He said the reorganisation had already borne fruit and he expected good organic growth in the current year, with further acquisitions a possibility.

A material repayment of the bank's historic hard core loan portfolio had been achieved. Authority's shares closed 10p higher at 555p.

London Shop raising £37m for future investments

BY TERRY POVEY

London Shop Property Trust is raising almost £37m to fund unspecified future investments through an issue of convertible unsecured loan stock.

The property investment, development and housebuilding company also announced yesterday pre-tax profits of £8.43m (£7.27m) for the year to April, along with a 10.6 per cent rise in the fully diluted net asset value per share to 214.2p.

Mr John Bushell, the company's chairman, said that London Shop was "currently examining investment property purchases in excess of £10m," and had several development projects in hand.

Given that the average size of property deals was increasing, Mr Bushell said that the fund raising was suitable in both timing and form to the company's 1987 needs.

In 1986-87, London Shop raised £38.5m through convertible and debenture stock issue, and spent £26.8m on purchasing 25 properties.

London Shop's net property revenue, primarily from the retail sector, rose to £13.07m (£11.62m). The East Anglia-based housebuilding operation completed 210 units in the year and contributed £2.08m (£1.22m) to profits before interest and administration costs of £15.62m (£13.24m).

The company's housing land bank is stretching out towards three years, said Mr Bushell.

The pre-tax total was struck after administrative and other expenses of £1.49m (£1.39m), interest received of £2.04m (£1.3m) and interest paid of £7.75m (£5.89m). After taxes of £2.46m (£2.41m), attributable profits of £5.92m (£4.77m) were posted.

A final dividend of 4.65p (4.05p) is being recommended, making 6.2p (5.5p) total for the year.

Stockbrokers who follow London Shop commented yesterday that they expected pre-tax profits for 1987-88 to reach £9.2m, and for the fully diluted net asset value per share to be 245p by the year-end.

One analyst added that the company "preferred to fund investments from equity being fairly debt averse."

The new convertible stock is being issued: £1 nominal for every two ordinary shares; £50.25 nominal for every £100 of existing 9 per cent 1994-99 convertible, and £29.50 nominal for every £100 of the existing 9.25 per cent 1999-2004 convertible.

The offer is underwritten by merchant bank J. Henry Schroder Wagg, and the brokers to the issue are Greenwell Montagu and Speirs and Jeffrey. London Shop's share price rose 7p to close at 250p.

Hampson up 64% to £2.8m

ORGANIC AND acquisition growth enabled Hampson Industries to push up its pre-tax profit by over 64 per cent in the year ended March 31 1987. The dividend is lifted from 1.132p to 1.375p net and there is again a scrip issue, this time on a one-for-five basis.

Turnover of the group, which is involved in engineering and manufacturing and industrial cleaning and maintenance services, rose 28 per cent, from £24.65m to £31.57m, while the pre-tax profit came to £2.83m, against £1.72m.

This year included a full 12 months from Ian Walker Furniture, as opposed to nine months last time, and eight months from IS Parts and seven months from Erison Engineering.

Very roughly something over £800,000 was attributable to the acquisitions and just under £500,000 to organic growth in the rest of the group.

But that was a slight simplification, the directors pointed out, because Ian Walker Furniture showed "a very healthy increase" in annual profits, and the organic growth was after taking into account the financing costs of the cash element in the acquisitions. Despite spending £1.14m on acquisitions the net reduction in liquid funds was only £438,000.

Ian Walker makes upholstered furniture, IS Parts is an American company producing machinery parts for the glass container industry, while Erison manufactures high precision engineering components.

In the current year growth had continued, with the early months showing an improvement over the comparable period in 1986, the directors reported. The increased dividend would be maintained on the higher capital.

After tax £1.06m (£709,000) and minorities £4,000 (nil), earnings for 1986-87 rose from 3.77p to 6.01p. There were extraordinary debits of £174,000 (£39,000). The final dividend is 1p.

Jones Stroud profits advance to £4.6m

Jones Stroud (Holdings), manufacturer of accessories and materials for the textile and electrical industries, yesterday reported a 10 per cent increase from £4.19m to £4.62m in pre-tax profits for the year to March 31 1987.

Mr Philip Jones, chairman, said that the current year had started well and the board was confident that a successful year was in prospect.

Turnover last year was up from £42.07m to £45.33m and the trading profit increased from £4.1m to £4.52m. The contribution from asociates fell sharply from £669,000 to £153,000, reflecting the sale of the 22.6 per cent in Fothergill & Harvey. The disposal is reflected in the extraordinary credit of £2.11m (nil) and by interest charges of only £48,000 compared with £575,000 for 1985-86.

Tax took £1.7m (£1.69m) leaving net earnings per share, excluding the extraordinary item, of 30.41p (25.84p).

There is a final dividend of 65p (5.5p) to make a total of 10p for the year, an increase of 1.5p on the preceeding year, and in addition a one-for-one scrip issue is proposed.

James Crosby to get listing

BY RICHARD TOMKINS

James Crosby, a Cheshire-based housebuilding company, is to become the latest in a series of housebuilders to join the stock market since the beginning of the year.

Stockbroker Panmure Gordon is placing just under 4m shares in the company—36 per cent of the enlarged equity—at 82p a share. The placing price is 14 times pro forma historic earnings.

James Crosby is a long-established company which builds houses mainly in the price range of £35,000 to £75,000 in the north-west of England. In the year to March 1987 it built 171 houses.

The group in its present form results from a management buy-out of the company from the founding family. The four-man buy-out team become the present board of directors headed by chairman Mr Michael Burgess.

Unusually, James Crosby comes to the market carrying a deficit on shareholders' funds of £652,000 resulting from goodwill written off in the buy-out. The proceeds of the placings, all of which will go to the the company, will reduce the company's borrowings and leave it with a debt-equity ratio of 79 per cent.

The profits record shows a pre-tax loss of £120,000 in 1983 turning into a pre-tax profit of £898,(/) for the year to March 1987. There is no profits forecast; but the company says it is optimistic about its prospects against the background of a buoyant housing market.

Plessey improvement

The outlook for Plessey, the UK electronics group, in the current year shows an improvement over 1986-87, Sir John Clark, chairman, said at the annual meeting yesterday. In the year ended April 3 1987 pre-tax profits at £184.2m were up 8.2 per cent on sales down 2.1 per cent at £1.43bn.

The company expects that its results would be more heavily weighted towards the latter half, with the implication that the first two quarters would not compare favourably with the same period in 1986-87.

John Foster

SHARES IN John Foster, spinner and cloth manufacturer, have risen not only because of the interest of a new substantial shareholders but also because of the improving performance and its improved prospects, the chairman told the AGM.

He said that on the basis of current trading the company expected pre-tax profits to exceed £250,000 in the six months to the end of August. The company was enjoying full activity thanks to a record order book.

Dewhurst makes 24% improvement

Dewhurst, manufacturer of electrical control equipment, raised pre-tax profits by 24 per cent from £187,369 to £231,689 in the half-year to March 29 1987.

This is the sixth successive year that half-year profits have increased and the directors expect the sustained improvement to yield record full-year results.

The directors said that while US market development expenses ran at an unsatisfactory level during the period, these have now been moderated to acceptable figures with the re-organisation of the group's North American activities.

Jack Israel profits fall

THE COST of increased administration expenses relating to changes to strengthen and broaden its base and management structure, and the pressure on margins, hit the profit of Jack L. Israel Group in the year ended March 31 1987.

But in the current year the directors of this USM-quoted food group look forward to substantial growth, and further development and expansion.

First quarter turnover was substantially ahead and trading margins also showed an improvement.

In 1986-87 the group pushed up its turnover by 20 per cent, from £32.43m to £38.82m, but the pre-tax profit fell some 28 per cent, from £1.42m to £1.02m. The dividend, however, is again 0.5p—earnings came to 1.1p (1.29p).

With its speciality in importing merchanting and distributing food products, the group has begun a series of acquisitions to broaden the product base and consolidate in areas of particular growth and market strength.

The most significant purchase was that of John Martin Foods, acquired in April. That expanded group activities to include canned fish under the Carnation label. The company is a major importer and distributor of nuts and dried fruit to food manufacturers in the UK and US.

In 1986 Martin achieved a pre-tax profit of £324,000 is expected to make a significant contribution to the current year.

COMPANY NEWS IN BRIEF

WILLIAM COX, a member of Yule Catto's building products divsion, has acquired the plastic sheet distribution division of H. Kleeman Group.

ST ANDREW TRUST is lifting interim dividend to 1.5p net (1.25p) and forecasting at least 3.85p for year 1987 (3.5p). Income for half year ended June 30 came to £1.16m £907,000) and net taxed revenue £684,000 (£525,000). Present indications for year were encouraging. At June 30 net asset value 2[illegible].5p (184.8p) after prior charges at par and 247.5p (185.9p) after charges at market value.

SUTER, the industrial conglomerate which last month won a contested bid for Mitchell Cotts, has reduced its stake in Newman Industries to 12.33m shares (9.74 per cent).

FISHERMEN'S PETROLEUM Company: Pre-tax profits for 1986 £5,283 (£15,020 losses). After tax of £785,000 (£1,073 credit) earnings per share amounted to 1.44p (5.15p losses). No dividends for the year.

OCE (UK) has continued to enjoy a strong demand for its products both in design engineering and office systems markets. As a result, its half year ended May 31 1987 saw turnover move ahead from £26.16m to £29.56m and pre-tax profit from £1.5m to £2.17m. Operating profit rose from £1.25m to £1.87m. The company is a subsidiary of Oce-van der Grinten, of The Netherlands, and is engaged in the reprographic industry.

T. COWIE, Sunderland-based motor group, has agreed to buy Austin Rover dealerships in Colchester and Bury St Edmunds from Mann Egerton.

HENDERSON GROUP: Carousel Investments and its associates have increased their total holding in Henderson from 7.7 per cent to 9.58 per cent (2.15m ordinary shares).

WACE GROUP, supplier of print services, is buying Image Communications Group, typesetter, for £87,500 cash and 66,794 shares.

FERRANTI has acquired the 49 per cent stake held by GTE International in its joint venture company, Ferranti GTE, which now becomes a wholly owned subsidiary. Ferranti GTE had a turnover last year in excess of £18m.

BROWN SHIPLEY HOLDINGS, merchant banker and insurance broker, started the year well and results so far reinforced the confidence expressed in the annual report and accounts, shareholders were told at the AGM.

TARMAC and Shell UK are forming an equal joint venture company manufacturing bitumen on the Wirral. The new company will buy Tarmac's bitumen refinery at Eastham, near Ellesmere Port, for £14m. Both companies will carry out their marketing and distribution activities independently. The venture will bring increased production efficiency.

BELLWAY, the Newcastle-upon-Tyne housebuilder, is forming a new subsidiary with Hull City Council to develop a 150-acre area of derelict land on the bank of the River Humber. Called the Victoria Dock Company, the new subsidiary will develop the area at an estimated cost of £50m during the next seven years. Hull City Council will hold 40 per cent of the new shares.

BRYSON OIL AND GAS: As a result of acquisitions, reserves at July 31 were tenfold more than last November and oil reserves were up from 124,000 to 327,945 barrels, shareholders were told at the annual meeting. Turnover had risen to an estimated annualised rate of £1.56m compared with £193,000 in 1986.

Dalgety expands in US

Dalgety has moved into the fast growing US fresh vegetable distribution field with the acquisition of Mor-Green, a California-based processor and distributor of speciality vegetables, for some $6m (£3.7m).

Dalgety already owns the leading fast-food distributor in North America (Martin-Brower) and Mor-Green is expected to benefit from its access to those markets.

It is intended to develop the process which extends the shelf life of vegetables, particularly for up-market produce such as asparagus, artichokes and mange tout.

Corton Beach expansion

Corton Beach, the automotive, foods, and leisure company, yesterday announced its third acquisition within a month, along with a share issue aimed at raising £2.3m net.

Corton Beach, which is quoted on the third market, is buying Lawson Deep Freeze Supplies for £500,000 in cash and shares. Lawson has annual sales of £2.5m with pre-tax profits forecast at £100,000.

Corton Beach will issue 2m ordinary shares at 120p each, which have been placed with institutions. The proceeds will be used to reduce borrowing and to finance further expansion.

The company said that current turnover was running at an annual rate of £60m, and that additional acquisitions are uder considertion

Broad Street

The directors of Broad Street Group stated yesterday that they had noted the recent rise in the company's share price. Although it was the company's published policy to review continually the possibility of entering into transactions that will extend its operating base, there was no single transaction of both such a size and at such a stage of negotiations to justify the sudden rise in the share price.

OFFICE Electronic Machine: The company has been advised that Overseas Strategic Investments now holds 1,017,500 (16.61 per cent) shares as of July 7.

Rockware in £26m purchases

BY DAVID WALLER

Rockware, the once-ailing glass bottle maker, yesterday announced the acquisition of a trio of private printing and packaging companies for £26m, prompting a 16p rise in its shares to 127p.

The acquisitions are to be financed by the issue of 24.15m new shares at 100p per share. Together with the issue of a further 845,000 shares to cover the costs of the transaction, this represents 22 per cent of Rockware's enlarged, fully-diluted equity.

The Ken Stokes Group, South Wales Packaging and Form Print Ltd together made £2.7m in pre-tax profits for 1986. The companies are warranted to make not less than £2.8m pre-tax profits in 1987, against £2.7m last year on turnover of £25.45m.

This compares with Rockware's own 1986 profits of £2m on £122m turnover, against the £60,000 achieved in 1985.

"These acquisitions bring a third leg to our business," Mr Frank Davies, Rockware chief executive, said. "We've spent a lot of time and trouble sorting out our glass activities, but we recognise that it's a mature business. We want to balance that with a growth business."

Mr Davies said the proportion of profits derived from glass—approximately two-thirds last year—would fall to one half in the current year as a result of the acquisitions.

Ken Stokes makes business forms, labels and other office stationery. It accounted for £2m of the trio's pre-tax profits last year. South Wales Packaging makes plastic shopping bags for "up-market" clients" such as Harrods; Dublin-based Form Print also makes business forms.

Net assets of the three companies amount to £3.5m. The goodwill arising from the acquisition will be set off against Rockware's share premium account, which stands at £20.4m.

Some 7.72m shares will be retained by the vendors. The remaining 16.43m shares have been conditionally placed by Kleinwort Grievson at 100p per share, subject to a 100 per cent claw-back from existing Rockware shareholders.

Rockware raised £25m by way of a placing of new shares at 50p in January.

Abbey Life sales in line with expectations

POOR WEATHER conditions in January resulted in a slow start at Abbey Life Group, but trading in the half year to June 1987 closed strongly and sales for the period were broadly in line with expectations, directors said.

Shares of this life assurance group rose 23p to close at 320p yesterday in a buoyant market.

Mr Michael Hepher, chairman, added that he anticipated a year of growth exceeding that achieved in either of the past two years. The group was preparing to take advantage of the opportunities presented by the new pensions legislation and Financial Services Act.

Premium income for the half year rose by 6 per cent to £221.9m (£209.6m), while life funds improved by 19 per cent from £2.2bn to £2.63bn.

In the UK, mortgage business continued its rapid growth, directors said, and Abbey Life advanced £78.6m in mortgages during the period. It was making advances in its own name as well as selling policies linked to endowment mortgages from other lenders. Mortgage loans would be promoted still more energetically in future, they added, providing a worthwhile contribution to future profits.

Regular premium sales showed a 15 per cent rise overall, from £37.2m to £42.6m. Life premium sales rose by 26 per cent to £24.7m (£19.6m) and health premiums more than trebled to £0.7m (£0.2m). Pension premiums declined slightly to £17.2m (£17.4m).

Single sales improved by 29 per cent to £120.2m (£93.1m), with only life premiums showing a decline to £51m (£59m). Single pension sales amounted to £15m (£12.5m), and health to £2.5m (£1.3m).

External unit trust sales more than doubled to £51.7m (£20.3m). MasterTrust, a concept pioneered by Abbey, had performed well, directors reported. A number of new products launched recently—Living Assurance, Offshore Funds and a PEP scheme—would augment sales from existing products in the second half of 1987, they said.

Abroad, the German subsidiary enjoyed good growth in contrast to the market as a whole. Results from the Irish subsidiary, however, were less satisfactory in a market somewhat depressed by tax and other legislative changes.

New initial commissions (NIC) increased by 15 per cent, from £23.3m to £26.7m, but mortgage loans are not included nor will be PEP's or Offshore Funds. As the implications of the new industry commission scales are felt, NIC will become less meaningful as a guide to future profit, the directors said, and acordingly that figure would not be published after 1987.

L and M new life business up

London and Manchester Group, the industrial life assurance group, increased its new single premium business by 51 per cent from £25.4m to £38.3m in the first half of 1987, the board announced yesterday.

New annual premiums also rose, by 7.4 per cent, from £11.39m to £12.24m with total sums assured on both classes of new business increasing by 13 per cent from £351m to £396m.

Mortgage lending also expanded with L and M's loan portfolio up 46 per cent to £260m at June 30.

Overall new annual premiums in L and M's home service division were 9 per cent lower at £5m. Of this total, industrial branch new annual premiums fell 10 per cent to £3.2m and ordinary branch premiums decreased by 6 per cent to £1.8m.

The division's new single premiums grew by 93 per cent to a new record of £8.3m, only marginally short of the corresponding figure of £9.1m for the whole of 1986.

L and M said that the home service division's results were affected in the early part of the year as the new field structure implemented in the latter half of 1986 progressed towards full effectiveness.

In addition, the field efforts to accommodate the re-writing of general branch business through an agency arrangement with Independent Insurance (formerly Allstate) and to secure the strong growth in single premium sales had adversely affected new annual premium achievement.

Nevertheless, said L and M, the signs of the improved business quality to sustain a healthy increase in premium income were already in evidence and changes already in hand so far as general branch business was concerned would have the effect of improving the profitability of group earnings from 1987 onwards.

L and M's life broker division boosted new single premiums by 22 per cent to £17.6m and new annual premiums were also raised, by 32 per cent, to £4.9m. New premiums in the pension division grew by 6 per cent to £2.4m whereas new single premiums rose by 69 per cent with sales of Transplan-plus (a section 32 buy-out policy arrangement pioneered by L and M) showing strong recovery as recent legislative uncertainty was removed.

Early Benlox acceptances surprise Nolton

By Nikki Tait

Nolton, the mini-conglomerate where bidder, Benlox Holdings, announced control late on Wednesday, yesterday expressed surprise that shareholders should accept the £15m offer over two weeks before the first closing date.

Their decision, said Nolton, had been taken "before all options had been fully explored

Nolton chairman, Mr Tony Good, added that he was "slightly surprised by the movement of the Nolton price since the announcement." Yesterday it rose 4½p to 74p, well above the 61p cash alternative from Benlox but—with Benlox's shares up 7½p to 66p—slightly below the 77p value of the paper offer.

SAC making three purchases

By Steven Butler

SAC International, the design engineering group, is spending up to £16.5m in three new acquisitions aimed at furthering its diversification out of aerospace and into nuclear engineering and technical publishing.

SAC's shares yesterday rose sharply after the announcement, closing up 39p at 399p.

The largest of the acquisitions, B. & R. Taylor, which will cost an initial £10m and up to £3.68m in performance-related payments, will bring to SAC substantial design and technological capabilities for the nuclear industry.

In the year to October 1986, B. & R. Taylor had pre-tax profits of £1.12m on a turnover of £8.7m.

The other acquisitions are ISI, a technical publications company costing £1.2m, and Sabre, a West Midlands company providing engineering design and technical staff support to the automotive, rail, machine tool, and process plant industries, for £1.6m.

The acquisitions will reduce the aerospace component of SAC's billings to between 40 and 45 per cent, while raising turnover to an annualised £52m based on current billings of the enlarged group. Turnover in the year ended August 1986 was £20.1m.

SAC forecast that pre-tax profits in the year to the end of August would be £3.1m, up from £1.65m last year.

The acquisitions take one step further SAC's strategy of buying established engineering consultancies to create a group that is diversified geographically and by industry.

"We're trying to do a Saatchi & Saatchi in this industry," said Mr Roger Smedley, chairman.

The initial aggregate consideration for the acquisitions, £12.8m, is to be satisfied by £2.55m in cash and by the issue of £2.93m in new ordinary shares to B. & R. Taylor and ISI. Of these shares, 2m plus 863,066 additional new ordinary shares have been placed with institutional investors at 350p each, subject to 1-for-5.8 clawback provision for shareholders.

Sapphire Petroleum bids £27m for US payroll group

BY TERRY POVEY

Sapphire Petroleum yesterday unveiled a $44m (£27m) cash bid for IDC, the US payroll company which services the film and advertising industries and includes Hollywood's famous Central Casting among its subsidiaries.

The planned merger of the USM-quoted Sapphire and the NASDAQ-listed IDC is the third scheme to be put together by Mr Christopher Mills of fund managers MIM whereby a UK lossmaker with massive tax losses in the US has merged with a US company.

MIM has a 15.3 per cent stake in Sapphire and an 18.1 per cent holding in IDC and is underwriting the $12½ a share offer which values the target company at $31m—in addition $13m will be needed to buy out existing options and debenture stock, and to repay debt.

Sapphire has had its overheads cut to the bone and its oil assets severely written-down, said Mr Mills yesterday. The effect of this has been to produce a negative reserve of £9.46m in the company's balance sheet, leaving net assets of only £1.3m. The company has tax losses totalling $33m available to it i nthe US.

Going by past experience a major capital restructuring plus a rights issue at a greatly reduced par level appears likely for Sapphire—although in this case only when and if the IDC bid succeeds.

The offer from Sapphire is supported by Mr Lawrence Berkowitz, IDC's president and chief executive, although the US company's board has yet to give a definitive reply.

IDC was set up 25 years ago to handle, on behalf of advertising companies, the payments to the thousands of actors and musicians appearing in television and radio commercials.

About ten years ago the company expanded into Hollywood where its Entertainment Group includes Central Casting and Motion Picture Residuals. The last company pays repeat fees to actors and actresses in thousands of films, many of them decades old.

In late May IDC's board put the company up for sale. Over the last five years it has had an erratic profits record with high operating costs and extraordinary charges reducing after-tax profits to $92,000 in 1986, a loss of $1.14m in 1985 after a profit of $1.78m in 1984. Turnover in the same three year period rose from $41m to $46.3m.

Mr Mills, who is a director of Sapphire and IDC, said that a reply from the IDC board was expected by the end of this month. Sapphire's shares were suspended yesterday at 70p and are likely to remain so until the bid is resolved.

Thomas Walker

The directors of Thomas Walker said yesterday that they were unaware of any fundamental reason for the recent sharp rise in the price of the company's shares.

Erskine House to buy US company for £4.6m

BY JANICE WARMAN

Erskine House Group, the acquisitive office equipment group, is to acquire Ameritech Equipment Inc, a Los Angeles copier distribution and servicing operation in its third US acquisition in 10 months.

The $7.5m (£4.6m) acquisition takes the group's combined US turnover to more than $50m and extends its coverage from the original Texas subsidiaries across to the West Coast.

Mr Brian McGillivray, chairman, said Erskine hoped eventually to build a branch network in the US similar to that in the UK. Its immediate aim was to raise its US turnover to $100m by the end of the financial year, probably by making three further acquisitions of a similar size.

Erskine is to pay up to $7.5m over two years, depending on the performance of Ameritech up to March 31 1989. About £2.4m of the consideration will be financed by the placing of 900,000 new shares at 285p per share.

The five-year-old company is the largest Ricoh dealer west of the Mississippi, operating from four locations in the LA area. In the year to September 30 1986 it produced pre-tax profits of $600,000 on turnover of $10.8m. Profits are expected to reach $1.5m on $15m turnover by March 31 1988.

Erskine, formerly a security group, made its first office equipment acquisition in 1983. Now 90 per cent of its turnover comes from this division, with 70 per cent in copiers.

Erskine is to make an initial payment of $3m on completion, with further payments dependent on profits performance. The brokers to the placing are Hoare Govett Ltd and the shares represent some 3.2 per cent of the issued share capital of the company prior to the transaction. The balance of the consideration will be met from the company's own resources.

Erskine's shares closed up 15p at 303p.

Platon subsidiary to be sold for £680,000

IN ORDER to concentrate reseources on core activities of instrumentation, telecommunications and computers, Platon International is disposing of its 92.67 per cent interest in Platon K and N for £680,000, subject to shareholders' approval.

There has been a significant change in the direction of K and N since it was bought in 1985: it sees its area of major growth in the manufacturing and distribution of switches and relays for direct marketing and subcontract assembly work.

The interest is being purchased by Milephantom, incorporated for the purpose by Mr N. Harvey, managing director of K and N and a director of Platon, together with two investors.

Consideration will be satisfied by the allotment of 500,000 4.38 per cent convertible preference and 180,000 7.3 per cent redeemable preference shares. The 4.38 per cent carry an additional participating dividend of 10 per cent gross on post tax profit of the purchasing group in excess of £130,000.

COMMODITIES AND AGRICULTURE

Farmers urged to co-operate marketing

By Bridget Bloom

BRITAIN's farmers must co-operate more in marketing their produce if they are to take their proper place in the food marketing "revolution," Mr Bill Bailey, director of the Co-operative Development Board, said yesterday.

The board, part of the Food from Britain organisation, has announced a drive to increase the number of farming co-operatives in Britain, particularly for vegetable and salad crops, potatoes, pig meat and apples and pears, over the next three years.

According to Mr Bailey, the increasing percentage of Britain's household expenditure on food which is now being accounted for by five or six large retailers, including Sainsbury, Tesco and Marks and Spencer amounts to a revolution for the farmer.

According to the board's figures, the multiple retailers' share of spending on food has more than doubled since 1980, with salads up from 20 per cent to 50 per cent, vegetables from 20 per cent to 41 per cent and top fruit—apples and pears—from 20 per cent to 47 per cent.

The board which is responsible for channelling official aid and giving advice to both agricultural and horticultural co-operatives, believes that only co-operatives have "the facilities, and the scale, to respond quickly to the volatile pressures of modern retail markets by gearing production, grading, packing and distribution to meet customers' requirements."

Co-operatives are also seen as giving farmers "muscle" in the market place, particularly in relation to the multiples.

Co-operatives now account for sales of about £1.5bn worth of produce at farm gate prices, out of total estimated sales of £12bn. Co-operative sales were about £1bn in 1980.

London Fox launches trade in options

BY DAVID BLACKWELL

LONDON FOX (the Futures and Option Exchange) is to launch trading in options on its cocoa, coffee and sugar contracts on Monday—a step which it sees as vital in its plans to increase the volume of business at the exchange.

At the same time the International Petroleum Exchange starts an option on its gas oil contract.

Both exchanges now operate on one trading floor at Commodity Quay, St Katharine Docks—built by London Fox when it was still known as the London Commodity Exchange, and opened at the end of May.

In the space between the pits and rings where the future contracts are traded, workmen will be busy over the weekend putting the finishing touches to the area designated for options trading. The exchanges hope that traders, including the new "locals" who earn their living by trading for their own accounts, will take advantage of the ease of access to all contracts on the single floor.

Options need a volatile futures base to succeed, and the exchanges are confident that the four contracts they have chosen for the options will provide good liquidity. Options are increasingly being seen, both in the US and the UK, as an attractive addition to traditional commodity and financial futures contracts.

This is because the downside risk is minimal—the most an investor can lose is the premimum he pays for the option, which confers on the buyer only the right to buy or sell, with no obligation to do so if the market moves against him.

At the same time, the options contracts can be traded just like futures. Thus both exchanges hope that the introduction of the new contracts will increase volume right across the trading floor.

"Options attract new users," says Mr John Parry of the Options and Futures Society. "Option writers will use the futures markets to hedge their exposure to options."

London Fox has been holding introductory workshops on options since last November, and reports an overwhelming response. The exchange has accepted 27 firms to membership of the traded options facility, which will eventually have 30 members.

Lim may review cocoa stance

BY WONG SULONG IN KUALA LUMPUR

MALAYSIA is under strong pressure from consumers and producers to join the International Cocoa Agreement, according to Dr Lim Keng Yaik, the country's Primary Industries Minister.

Dr Lim, who has just returned from a five-week tour of Europe, the US and Brazil, acknowledged that "those I met were all anxious that Malaysia become a member of the International Cocoa Agreement."

Malaysia would prefer to be outside the pact, he said, but was prepared to review its stand "given the right scenario."

From an insignificant producer a decade ago, Malaysia has surged ahead to become the world's fifth biggest producer, after the Ivory Coast, Brazil, Ghana and Nigeria.

Last year, Malaysia produced 117,000 tonnes of cocoa, and output is expected to hit 180,000 tonnes by 1990. The crop is now Malaysia's fourth biggest agricultural export commodity, and it is reluctant to join the agreement because of production quotas which would restrict its rapid expansion.

Some producers belonging to the agreement have suggested that consumers agree to a ban on imports from non-member producers to make the pact more effective.

They view Malaysia's non-membership as inconsistent with its role in other commodity pacts, such as the International Natural Rubber agreement.

On tin, Dr Lim said Administration officials had assured him that the US would adhere to its commitment not to sell more than 3,000 tonnes of tin a year from its stockpile. Brazilian officials had also given assurances that they would support the association of tin producing countries' 96,000 tonne export quota by maintaining Brazilian exports at 21,000 tonnes.

Dr Lim said he learnt that Brazil was planning to build up a 65,000 tonne rubber stockpile.

He was also confident that the firm rubber prices would be maintained in view of the strong demand for surgical gloves and condoms due to the AIDS scare in the West.

Tea planters face prices threat

BY ANDREW BUCKOKE, RECENTLY IN KERICHO

THE ROLLING hills around Kericho in western Kenya look as though they are covered with a vivid green Wilton carpet. The monotony of the tea bushes is relieved only by the stands of eucalyptus and pockets of surviving indigenous forest.

Kericho is the centre of the Kenyan tea industry, whose production has nearly trebled since 1975, making it the third largest exporter in the world after India and Sri Lanka. Kenya earned a record $235m (£144m) in foreign exchange in 1985.

The industry has increased both the planted acreage and productivity not only on the large estates, but also on the thousands of small holdings operated under the aegis of the Kenya Tea Development Authority. Total production is divided roughly between the smallholders and the estates.

The great contrast between the large estates and KTDA growers is epitomised by the African Highlands Produce Company's huge operation near Kericho. Owned by James Finlay of Glasgow, it is not as large as the Unilever's Brooke Bond tea growing operation in Kenya, but that is made up of scattered estates.

The seven adjoining African Highlands estates cover 13,000 hectares. The place is not unlike a principality, with its own hydro-electric power plants, hospitals, schools, roads, telephone exchange and 13,000 workers and their families. It produces 12 per cent of Kenya's tea.

But just like the smallholder who plants and plucks his few acres with his family and delivers a few bags of fresh leaf to the nearest roadside each day to be picked up by KTDA lorries, African Highlands viability depends on the world prices for tea.

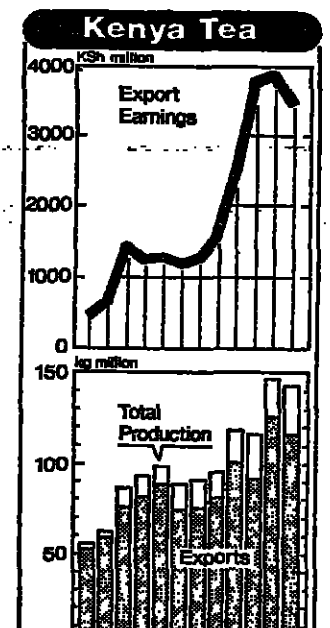
The boom year of 1985 — following the excellent prices but smaller production of 1984 — saw prices for Kenya's high quality teas averaging around KSh 30 (113p) a kg. Last year there was a slight drop to an average of around KSh27 a kilo. The result was a fall in production from the 1986 record of 147m kg to 143m kg, a steeper decline in exports from 126m kg to 116m kg, and a still steeper decline in export earnings from KSh3.8bn ($235m) to KSh3.4bn.

So far this year prices have dropped dangerously close to to the average price of KSh21 a kg at which African Highlands management say they just break even. As far as the smallholders are concerned, one told me: "If there isn't a rise in prices soon, or no subsidies from the government, they'll soon be a tea forest around here." If left untended, tea bushes turn into 30 ft trees.

The current price situation is not the only obstacle to the retention of current levels of production, let alone maintaining the previous growth in production to meet the government target of doubling production in the next five years.

In April, the Pakistan Government started restricting imports of Kenyan tea, which had accounted for nearly a third of Kenyan exports, because of the imbalance of trade between the two countries, and pressures from other countries that had lost market share with the rapid growth of high quality Kenyan exports.

In 1985 Kenya tea exports to Pakistan earned $75m while it imported goods worth $5m from Pakistan. The gap was probably wider in 1986, when Kenya had increased its market share in Pakistan to more than 50 per cent. As recently as 1982,



Source: Tea Board of Kenya

Kenya had supplied only 20 per cent, compared with Bangladesh's 26 per cent and Sri Lanka's 23 per cent. Bangladesh had dropped to 10 per cent and Sri Lanka to 9 per cent by last year.

Kenyan tea growers appear more concerned by the general price situation, however, in the belief that the high quality of Kenyan teas—particularly those produced by the smallholders—will enable them to find alternative markets.

For example, Kenya has been displacing other suppliers in the UK, which takes nearly half its exports. Kenyan tea now forms 25 per cent of UK consumption.

Although they believe the potential for further expansion of production is there—some clones being developed offer cropping rates of up to 8,000 kg of fresh leaf a hectare, against current averages of 3,000 kg—there are two further question marks about the Government's projections.

The planting by the government in the Nyayo Tea Zones, named after President Moi's political slogan of peace, unity and love, has poor roads and primitive housing for workers. Such essentials as tea factories to process the fresh leaf have not yet been built, although it will be several years before the bushes come into full production.

Potentially more serious, especially with the further expansion of acreage, is the shortage of labour to pick the leaf. African Highlands sends trucks up to Lake Turkana in the remote semi-desert north of Kenya to look for workers.

The paradox is that one of the main reasons the government is promoting tea production is that it is a labour intensive industry that could provide jobs to a population expanding at 3.8 per cent a year.

The trouble is that most of them do not want to work on tea estates if it means relocating from their home areas, especially if the rains have been good and their own crops are doing well, as in the past two years. This is in spite of the fact that both earnings and living conditions are better than in many parts of Kenya.

Many estate managers say the answer is mechanised plucking, to free labour for the smallholders and the new Nyayo Tea Zones, realise full production capacity, and remain competitive with other countries on costs in the future. The subject remains politically taboo however, and the only plucking machine in the country—at African Highlands—is said to be strictly for research purposes.

Machines take the strain out of plucking

BY OUR KAMPALA CORRESPONDENT

ON AN isolated tea estate in the scenic foothills of Uganda's western mountains, Mitchell Cotts, the British-based multinational, has developed a tea harvester that could revolutionise tea plucking methods worldwide.

Mitchell Cotts returned to Uganda in 1980, after the overthrow of President Idi Amin. In a joint venture with the Ugandan government, it formed the Toro & Mityana Tea Company (Tamteco) to recover estates that had been abandoned and grown into forests.

Severe labour shortages forced the company to explore the possibility of mechanisation. It commissioned Silsoe College in Bedfordshire to design a suitable machine. Today, Tamteco has four harvesters working on the largest of its estates.

The main difference between the Mitchell Cotts Tea Combine and its rivals is a unique feature enabling width adjustment of both the front wheels and rear tracks. This means that tea planted in various bush spacings can be plucked, ending the need to purpose plant for mechanisation.

To date, it has been difficult or impossible to mechanise old, established, tea plantations. Tamteco uprooted some lines of bushes, but thinks that this has not reduced yields because tea bushes fan out to close the gaps.

Mr John Kilgour, the designer of MCTC Mark II—and director of Silsoe's design consultancy unit—has modified three machines to meet specifications thrown up by testing. He claimed that the first machine, modified last year, has operated "trouble free" for more than 1,000 hours after routine servicing and maintenance.

The harvester adjusts its width hydraulically while in operation from 2.4m to 3.1m. It weighs 10.5 tonnes but does not apparently cause soil impaction. It has 107 horsepower, and is roughly the size of a cereal combine with a "tank" for 800 kg of green leaf. The plucking height of the model adapted for Uganda is 500 mm to 1,500 mm.

So far, testing has shown that 10 hectares of tea can be plucked a day, with two drivers on different shifts at an average speed of 8km an hour. Hourly fuel consumption is said to be relatively low at 13 litres of diesel. The machine works normally on 5-degree slopes—a common problem in hilly, tea-growing areas.

Tamteco staff who have worked with the machine reckon that one harvester could control 120 hectares of tea, under good operating conditions. Mr Kilgour described the harvesting system as "high capital cost with high productivity." The cost per kilo of green leaf could be reduced considerably by working a 24-hour shift, using lights at night.

Analysis of machine-harvested tea samples suggest comparable quality to most hand-plucked teas in Uganda. Pruning — which puts the tea bushes out of production for at least three months—can be reduced, with a pruning cycle of four years instead of every three years for Ugandan estates.

Ugandan drivers and mechanics said they found the harvester "easy to drive with practice." According to Mitchell Cotts' development engineer Mr Roger Oliver, a good tractor driver can learn how to drive the harvester in one month. "The basics of simple repairs and routine maintenance are not difficult, but hydraulics are uncommon here," he said.

The machine's economic life is said to be five to seven years, after which replacement would, as Mr Kilgour put it, "safeguard reliability." He calculated that the cost of building new machines in small numbers would be around £75,000 each.

LONDON MARKETS

NICKEL prices continued to rise strongly on the London Metal Exchange, with the three-month contract breaching the £3,000 level for the first time since November 1985 to close at £3,042 a tonne. The rise for the day of £84.50—the biggest this week—was again fuelled by strong demand from the stainless steel industry against a background of tight physical supplies. Copper prices recovered some of Wednesday's losses as traders, short of the metal and consumers, started to buy. The recovery was helped by news that Chilean copper exports were being hit by heavy flooding. Meanwhile cocoa prices continued to advance on the back of a strong opening to trading in New York. Dealers said that buying was mixed, with some profit-taking towards the close, but the bull trend continued to be backed by reports of dry weather in African growing areas. The market is still keeping a close watch on the International Cocoa Organisation's meeting in London.

LME prices supplied by Amalgamated Metal Trading.

INDICES

REUTERS

July 15	July 14	M'th ago	Year ago
1637.1	1640.0	—	—

(Base: September 18 1931=100)

DOW JONES

Dow Jones	July 15	July 14	M'th ago	Year ago
Spot	127.85	127.12	—	116.34
Fut	126.28	126.91	—	115.81

(Base: December 31 1931=100)

MAIN PRICE CHANGES

	July 15 1987	+ or —	Month ago
METALS			
Aluminium			
Free Market	$1690/780	+5	$1610/630
Copper			
Cash Grade A	£1016.5	+12.0	£976
3 months	£1003.25	+10.75	£957.75
Gold troy oz	$453.25	+0.50	$452.75
Lead Cash	£400	+12	£372.5
3 months	£375	+4.5	£354.5
Nickel			
Free Mkt.	218/228c	+5	207/227c
Palladium oz	$141	+0.25	$136.50
Platinum oz	$573	+0.5	$583.25
Quicksilver†	$240/250		$260/280
Silver troy oz	477.55p	+3.90	467.05p
3 months	488.10p	+3.89	477.20p
Tin			
free Mkt.	£3880/990	-140	£4120/150
Tungsten	$56.21		$58.16
Wolfram 22.4lb	$48/55		$48/55
Zinc	£485.5	+23.5	£557
3 months	£474.5	-18.0	£532
producers	$860		$842
OILS			
Coconut (Phil)	$455z		$475
Palm Malayan	$307.5t		‡
Seeds			
Copra (Phil)	$305x		$290.5
Soyabean (U.S.)	$149z	-1	$154.5
GRAINS			
Barley Fut. Nov.	£99.90	+0.85	£97.00
Maize	£160.50		£153.00
Wheat Fut. Sept	£101.85	+0.15	£99.60
No. 2 Hard Wint.	‡		‡
OTHERS			
Cocoa Ft. Sept	£1378.5	+9.0	£1284.5

ALUMINIUM

99.7% purity	Unofficial (close p.m.) $ per tonne	+ or —	High/Low
Cash	—	—	—
3 months	1615-25	+5	1620

COPPER

Grade A	Unoffic'l close £ per tonne	+ or —	High/Low
Cash	1015-17	+12	1025/1017
3 months	1003-3.5	+10.75	1013/991

Official closing (am): Cash 1,024.5-5.5 (1,018-19), three months 1,012-13 (1,006-7), settlement 1,025.5 (1,019). Final Kerb close: 1,005-6.

Standard			
Cash	1012-13	+10	—
3 months	995-8	+10	—

Official closing (am): Cash 1,020-5 (1,017-19), three months 1,005-10 (997-9), settlement 1,025 (1,019). US Producer prices 78.5-83 cents a pound. Total Ring Turnover: 33,725 tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	399-401	+12	403/402
3 months	374.5-5.5	+4.5	379/363

Official closing (am): Cash 401.5-2.5 (395-6), three months 377-8 (375-5.5), settlement 402.5 (396). Final Kerb close' 376-7. Ring Turnover: 14,425 tonnes. US Spot: 38-42 cents a pound.

NICKEL

	Unofficial close (p.m.) £per tonne	+ or —	High/Low
Cash	3035-40	+82.5	—
3 months	3340-44	+84.5	3076/2985

Official closing (am): Cash 3,050-60 (2,995-3,000), three months 3,045-8 (2,980-1), settlement 3,060 (3,000). Final Kerb close: 3,040-50. Ring Turnover: 2,262 tonnes.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	485-6	-23.5	486
3 months	474-5	-19	499.5/470

SILVER

Silver was fixed 3.90p an ounce higher for spot delivery on the London bullion market yesterday, at 477.55p. US cent equivalents of the fixing levels were: spot 775.8c, up 14.25c; three-month 791.90c, up 14.25c; six-month 805.40c, up 14.45c; and 12-month 835c, up 15.15c. The metal opened at 476-478p (777-780c) and closed at 476-477p (775-778c).

SILVER per troy oz	Bullion Fixing price	+ or —	L.M.E. p.m. Unoffic'l	+ or —
Spot	477.55p	+3.90	773.5c	-4.8
3 months	488.10p	+3.89	786.5c	-2.5
6 months	498.45p	+3.89	—	—
12 months	520.25p	+3.25	—	—

LME—Turnover: 8 (2) lots of 10,000 ounces.

Final Kerb close: 785-8c.

COFFEE

After a disappointing opening Robustas fought their way back to unchanged, reports Drexel Burnham Lambert. Against a weak NY close scattered commission house and light trade selling pushed levels towards the contract lows. The market held just above the lows and prompted short-covering throughout the rest of the day. Price fixing with evident along with dealer short-covering.

COFFEE	Yesterday close	+ or —	Business done
July	1195-1196	-2.5	1196-1180
Sept	1230-1235	-4.0	1235-1214
Nov.	1257-1260	-0.5	1257-1244
Jan	1276-1277	-11.5	1280-1270
Mar.	1297-1302	-10.0	1302-1293
May	1318-1322	-18.0	1329-1316
July	1330-1350	-10.0	—

Sales: 2,165 (2,489) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for July 15: Comp. daily 1979 96.47 (97.51); 15-day average 96.61 (96.74).

COCOA

Futures advanced on a combination of bullish chart formation and lack of origin selling and at the highs values were £25 above the previous close, however, prices declined on late profit-taking and ended the day in the middle of the range, reports Gill and Duffus.

	Yesterday's close £ per tonne	+ or —	Business done
July	1400-1407	+18.0	1407-1389

US MARKETS

EARLY TRADE and speculative buying pushed crude oil to new highs before heavy profittaking and liquidation, spurred on by fund selling in the products, coupled with trade selling pared gains, reports Drexel Burnham Lambert. The precious metals were quiet and, in the main, dominated by locals. However, trade and commission house buying was noted in gold and light trade buying in silver. Copper ended higher on overseas buying. Coffee firmed on commission house and local buying following early light selling by the trade which touched off stops. Cocoa rallied on trade buying, but then fell back as producer selling prompted long-liquidation. Heavy trade selling in sugar touched off commission house stops which was joined by fund selling, but the trade turned scale-down buyer which steadied values back. Cotton continued its rise on follow-through buying despite trade scale-up selling. Cattle futures were slightly higher on mixed buying reflecting uncertainty over future market condition. The pork complex was sharply higher as the major short-covering rally continued. Commercial selling in July soyabeans reflecting deliveries eased prices in combination with professional liquidation, which also featured in the meal. Commercial and fund selling in soyabeanoil eased the futures. Wheat and corn both fell on commission house liquidation in the face of scale down commercial buying.

NEW YORK

ALUMINIUM 40,000 lb, cents/lb

	Close	Prev	High	Low
July	74.00	73.90	74.00	74.00
Aug	73.50	73.45	—	—
Sept	72.85	72.50	73.00	73.00
Dec	72.10	71.85	72.25	72.15
Jan	70.00	70.00	—	—
Feb	—	—	—	—

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Better performance by dollar

THE DOLLAR recovered part of Wednesday's sharp losses, and closed at or near its highest levels of the day.

Wednesday's fall followed publication of a larger than expected US trade deficit for May, and yesterday's recovery was partly a reassessment of the trade data.

Dealers appeared to take comfort from the rise in US exports and from the recent Japanese trade figures showing a reduction in the June surplus. This encouraged hopes that the June US trade figures will be better.

Tension in the Gulf put upward pressure on oil prices, but this was not considered a negative factor for the dollar, as the US is a major oil producer, although in the recent past has also been a net oil importer.

In general the market was uncertain about the next move by the dollar, but noted the rise back above Y150 and towards DM1.84, which had earlier been suggested as a likely peak of the trading range, after the trade figures.

The dollar rose to a peak of DM 1.8385, and closed at DM 1.8370, compared with DM 1.8295 previously. It also rose to FFr 6.1150 from FFr 6.0925 and finished at the day's high against the Swiss franc and Japanese yen, advancing to SFr 1.5290 from SFr 1.5220 and to Y150.50 from Y148.55.

On Bank of England figures the dollar's index rose to 102.9 from 102.6.

STERLING—Trading range against the dollar in 1987 is 1.6885 to 1.4710. June average 1.6289. Exchange rate index rose 0.2 to 72.5, compared with 69.8 six months ago.

Sterling was little changed against the dollar, but firmer against other major currencies, including the D-Mark. The Bank of England intervened when the pound traded at over DM 3.00. For most of the day it hovered just below this level.

High oil prices, with North Sea crude moving up towards $21 a barrel, and US oil futures touching $22.76, provided strong underlying support for sterling. There was no reaction to figures on unemployment, public borrowing, and other UK economic news.

Sterling gave up 10 points to $1.6305-1.6315, but rose to DM 2.9950 from DM 2.9850; to SFr 2.4950 from SFr 2.4850; to FFr 9.9750 from FFr 9.9425; and to Y245.50 from Y242.50.

D-MARK—Trading range against the dollar in 1987 is 1.9365 to 1.7690. June average 1.8186. Exchange rate index 146.8 against 148.8 six months ago.

The D-Mark weakened slightly against the dollar in Frankfurt, as the US currency rebounded from Wednesday's sharp fall. Trading was within a narrow range, waiting for the dollar to find new direction. It was regarded as strong on the technical side, but weak as far as economic fundamentals are concerned.

The dollar closed at DM 1.8345, compared with DM 1.8315 on Wednesday, and appeared to have established a range of DM 1.82 to DM 1.84.

The Bundesbank did not intervene when the dollar was fixed at DM 1.8333 in Frankfurt, compared with DM 1.8490 previously.

JAPANESE YEN—Trading range against the dollar in 1987 is 159.45 to 138.35. June average 144.52. Exchange rate index 213.1 against 210.6 six months ago.

The yen rose against the dollar in Tokyo yesterday, in reaction to the US trade figures. The dollar fell to Y149.60, from Y151.25 on Wednesday, but was above the New York close of Y148.85.

Short covering culled the dollar up, after its fall on the trade news, with one or two Japanese investment houses also regarding a level below Y150 as a dollar buying opportunity.

Dealers were uncertain about the immediate prospects for the dollar, but generally expected little movement ahead of next month's US Treasury auctions.

In the longer terms the dollar is expected to weaken, with the rise in recent weeks seen as only a correction after months of decline.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July 16	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.0756	+1.45	+0.77	± 1.5344
Danish Krone	7.85212	7.88695	+0.44	−0.24	± 1.6404
German D-Mark	2.05853	2.07748	+0.92	+0.24	± 1.0981
French Franc	6.90403	6.91928	+0.22	−0.46	± 1.3674
Dutch Guilder	2.31943	2.33828	+0.81	+0.13	± 1.5012
Irish Punt	0.768411	0.775333	+0.90	+0.22	± 1.6684
Italian Lira	1483.58	1504.18	+1.39	+1.27	± 4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

FINANCIAL FUTURES

Pound aids gilt recovery

LONG TERM gilt futures on the London International Financial Futures Exchange ended firmer on the day after earlier signs of disappointment at the June UK Public Sector Borrowing Requirement.

September gilts opened firmer at 124-12 and were trading around 124-06 just before the PSBR announcement. News of a net repayment of £800m pushed the contract down to the day's low of 123-30, but it recovered to 124-04 soon after.

James Capel had forecast a PSBR repayment of £1.5bn, and according to a survey by Money Market Services the median forecast was for a repayment of £1bn.

An underlying rise of 7¾ per cent in May year-on-year average earnings were as expected, and the seasonally adjusted fall of 27,000 in June UK unemployment came as no surprise.

The September contract moved up steadily after the initial reaction to the PSBR had passed, and broke through technical resistance at 124-12, as the market's attention switched to the rise in oil prices and the strength of the pound. It reached a high of 124.24, and closed at 124.21, compared with 124.11 previously.

US Treasury bonds also reacted to the oil price news, but in the opposite direction. September bonds fell to the day's low of 91-12 on news that New York oil futures had touched $22.76 a barrel, but recovered with the rise of the dollar, to close at 91-18, compared with 91-13 on Wednesday.

Volume in US bonds was considered good at 4,733, in contrast to Japanese Government bond futures, where volume fell to 2,819 contracts, from 6,030 on Wednesday.

Dealers described trading in the Japanese bond as something of a disaster. September delivery had closed firm on Wednesday at 109.72, but an overnight fall in Tokyo took the contract down to 108.50 at the Liffe opening. This was near the day's high, and the price fell to a low of 108.23, before finishing at 108.25.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Sept	Calls—Last Dec	Puts—Last Sept	Puts—Last Dec
116	8.42	8.55	0.00	0.23
118	6.44	7.09	0.02	0.41
120	4.50	5.38	0.08	1.06
122	3.03	4.15	0.25	1.47
124	1.45	3.05	1.03	2.37
126	0.51	2.10	2.09	3.42
138	0.18	1.35	3.40	5.03
130	0.07	1.01	5.29	6.33

Estimated volume total, Calls 3,511 Puts 1085
Previous day's open int: Calls 27,451 Puts 17,090

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Sept	Calls—Last Dec	Puts—Last Sept	Puts—Last Dec
82	9.37	9.00	0.01	0.26
84	7.39	7.21	0.03	0.47
86	5.47	5.51	0.11	1.13
88	4.01	4.16	0.29	1.42
90	2.23	2.57	0.51	2.19
92	1.03	1.63	1.31	3.25
94	0.25	1.20	2.53	4.46
96	0.09	0.53	4.37	6.15

Estimated volume total, Calls 150 Puts 250
Previous day's open int: Calls 1,757 Puts 739

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last July	Calls—Last Aug.	Puts—Last July	Puts—Last Aug.
23250	14.01	14.60	0.01	0.80
23500	11.53	12.69	0.03	1.19
23750	9.11	10.73	0.11	1.73
24000	6.82	8.92	0.32	2.42
24250	4.76	7.29	0.76	3.29
24500	3.05	5.85	1.55	4.35
24750	1.77	4.61	2.77	5.61
25000	0.91	3.56	4.41	7.06

Estimated volume total, Calls 13 Puts 56
Previous day's open int: Calls 171 Puts 158

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

LONDON SE £/$ OPTIONS
£12,500 (cents per £1)

$500 times index

	Latest	High	Low	Prev.
Sept.	311.85	313.15	311.50	311.35
Dec.	314.20	313.50	313.90	313.80
Mar.	316.70	317.60	316.70	315.90
June	318.90	319.80	318.90	318.10

SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Sep.	0.6582	0.6592	0.6570	0.6597
Dec.	0.6642	0.6645	0.6623	0.6654
Mar.	0.6705	0.6705	0.6695	0.6730
June.	—	—	—	0.6780

*Selling rate

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

MONEY MARKETS

Little reaction to UK figures

INTEREST RATES remained steady in quiet trading on the London money market yesterday. Three-month interbank was unchanged at 9$\frac{3}{16}$-9$\frac{1}{16}$ per cent, and there was little reaction to the economic news.

The net repayment of £800m in the June UK Public Sector Borrowing Requirement was slightly less than generally expected, but other figures on average earnings and unemployment were very much as forecast.

UK clearing bank base lending rate 9 per cent since May 8

Sentiment was helped by sterling's underlying strength, while dealers were also pleased that credit distortions, caused by earlier privatisation of state owned companies, should be avoided by the Bank of England's arrangements to cope with the sale of shares in the British Airports Authority.

The Bank of England initially forecast a money market shortage of £600m, but revised this to £500m at noon, and back to £600m in the afternoon. Total help of £453m was provided.

Before lunch the authorities gave assistance of £65m, buying £5m local authority bills in band 2 at 8¾ per cent, and £60m bank bills in band 2 at 8¾ per cent.

In the afternoon the Bank of England purchased another £153m bills, by way of £67m bank bills in band 1 at 8¾ per cent, and £86m bank bills in band 2 at 8¾ per cent.

Late assistance of around £235m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £629m, with Exchequer transactions absorbing £90m, and a rise in the note circulation £50m. These outweighed bank balances above target of £165m.

In Frankfurt call money rose to 3.70 per cent from 3.65 per cent, and was offered as high as 3.80 per cent. Payment of DM 3.2bn for the Federal Government bond issue has tightened credit conditions, while firmer Euromark period rates are tending to pull up rates in the domestic market.

The market is also faced with a drain from a rise in the note circulation during the holiday period. This hit a record DM128.6bn in the first week of July.

Next week a securities repurchase agreement of DM 8.1bn will expire, and dealers hope the Bundesbank will take the opportunity of a new agreement to add extra liquidity to he market.

$ WORLD VALUE OF THE DOLLAR
BANK OF AMERICA GLOBAL TRADING ECONOMICS DEPT., LONDON

The table below gives the rates of exchange for the U.S. dollar against various currencies as of Wednesday, July 15, 1987. The exchange rates listed are middle rates between buying and selling rates as quoted between banks, unless otherwise indicated. All currencies are quoted in foreign currency units per one U.S. dollar except in certain specified areas. All rates quoted are indicative. They are not based on, and are not intended to be used as a basis for, particular transactions.

Bank of America NT & SA does not undertake to trade in all listed foreign currencies, and neither Bank of America NT & SA nor the Financial Times assume responsibility for errors.

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Enquiries: 01-634 4360/5. Dealing: 01-236 9861.

ECU=$US1.12339 SDR1=$US1.26796
As of July 15, at 11.00 a.m.

	3 months	6 months
Eurodollar Libor:	6⅞	7$\frac{1}{16}$
Sibor:	6$\frac{15}{16}$	7$\frac{1}{16}$

COUNTRY	CURRENCY	VALUE OF DOLLAR
Afghanistan	Afghani (o)	50.60
Albania	Lek	6.2581
Algeria	Dinar	4.67
Andorra	French Franc	6.153
	Spanish Peseta	127.07
Angola	Kwanza	29.918
Antigua	E. Caribbean $	2.70
Argentina	Austral	1.8865
Aruba	Florin	1.79
Australia	Dollar	1.4164
Austria	Schilling	13.00
Azores	Portuguese Escudo	144.45
Gibraltar	Pound*	1.6139
Greece	Drachma	139.05
Greenland	Danish Krone	7.0145
Grenada	E. Caribbean $	2.70
Guadeloupe	Franc	6.153
Guam	U.S. $	1.00
Guatemala	Quetzal (o)	1.00
	Quetzal (b, f)	2.71
Guinea Bissau	Peso (1)	650.00
Guinea Republic	Franc	340.00
	Franc (f)	300.00
Papua New Guinea	Kina	0.9087
Paraguay	Guarani (o)	320.00
	Guarani (p)	550.00
	Guarani (d)	798.00
Peru	Inti (o) (n)	15.88
	Inti (f)	32.15
	Inti (f)	19.88
Philippines	Peso	20.44
Pitcairn Islands	N.Z. Dollar	1.6633
Poland	Zloty (o)	262.92
Portugal	Escudo	144.45
Puerto Rico	U.S. $	1.00

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	THURSDAY JULY 16 1987					WEDNESDAY JULY 15 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (94)	147.03	+1.4	133.65	137.39	2.86	144.99	131.72	135.88	147.03	99.92	75.60
Austria (16)	91.49	+2.5	83.16	87.18	2.38	89.22	81.05	84.77	101.62	85.53	86.75
Belgium (48)	126.72	+1.0	115.19	119.22	4.02	125.50	114.01	118.07	126.72	96.19	81.25
Canada (132)	138.45	+0.6	125.85	132.54	2.11	137.68	125.07	131.95	138.45	100.00	96.05
Denmark (39)	114.80	−0.9	104.35	108.87	2.56	115.86	105.26	109.40	124.10	98.18	92.75
France (121)	109.23	−1.1	99.29	104.77	2.71	110.49	100.38	105.59	121.82	98.39	87.08
West Germany (92)	99.22	−0.7	90.19	94.76	2.00	99.94	90.79	95.06	100.33	84.00	80.47
Hong Kong (45)	132.05	+1.4	120.03	132.38	2.73	130.23	118.30	130.57	132.05	96.89	70.66
Ireland (14)	144.04	−0.9	130.94	139.11	3.24	145.41	132.09	139.80	145.41	99.50	92.10
Italy (76)	95.89	+0.9	87.17	95.18	1.91	95.00	86.30	93.93	112.11	93.47	81.04
Japan (458)	133.63	−0.8	121.47	127.13	0.54	134.69	122.36	126.47	161.28	100.00	86.64
Malaysia (36)	185.76	−0.4	168.85	181.59	2.07	186.48	169.41	182.06	186.48	98.24	80.26
Mexico (14)	289.14	+1.2	262.83	436.89	0.69	285.58	259.43	430.89	289.14	99.72	51.83
Netherland (38)	127.82	+1.0	116.18	120.61	3.68	126.56	114.98	119.03	127.82	99.65	91.15
New Zealand (26)	107.18	+1.8	97.42	94.10	2.97	105.32	95.68	92.95	107.18	83.93	72.07
Norway (24)	149.35	+0.2	135.76	135.97	2.01	149.01	135.37	135.36	149.35	100.00	97.25
Singapore (27)	160.60	+0.5	145.98	156.68	1.57	159.77	145.14	155.91	160.60	99.29	79.16
South Africa (61)	176.05	+0.6	160.03	128.30	3.21	174.97	158.95	127.51	186.74	100.00	71.60
Spain (43)	126.40	+0.2	114.90	120.85	3.35	126.09	114.55	120.31	126.40	100.00	82.68
Sweden (33)	120.02	−0.4	109.09	113.84	2.04	120.48	109.45	113.93	124.68	90.85	90.48
Switzerland (53)	100.07	−0.1	90.96	94.86	1.76	100.18	91.01	94.53	104.06	92.01	82.72
United Kingdom (336)	162.87	+0.9	148.04	148.04	2.94	161.45	146.67	146.67	162.87	99.65	98.59
USA (591)	127.57	+0.7	115.96	127.57	2.84	126.73	115.12	126.73	127.57	100.00	98.83
Europe (933)	128.35	+0.4	116.67	120.08	2.71	127.89	116.18	119.39	128.35	99.78	89.28
Pacific Basin (686)	134.06	−0.6	121.86	127.59	0.71	134.91	122.56	126.87	158.77	100.00	85.70
Euro–Pacific (1619)	131.83	−0.2	119.83	124.58	1.49	132.15	120.05	123.88	143.65	100.00	87.12
North America (723)	128.16	+0.7	116.50	127.88	2.79	127.32	115.66	127.04	128.16	100.00	98.68
Europe Ex. UK (597)	106.91	−0.1	97.19	102.51	2.50	107.04	97.24	102.26	107.75	98.02	83.67
Pacific Ex. Japan (228)	139.44	+1.3	126.76	133.07	2.73	137.63	125.03	131.59	139.44	99.92	73.94
World Ex. US (1826)	132.64	−0.2	120.57	125.13	1.54	132.91	120.74	124.42	143.38	100.00	87.23
World Ex. UK (2081)	127.48	+0.0	115.88	123.96	1.92	127.44	115.77	123.27	133.61	100.00	91.13
World Ex. So. Af. (2356)	130.34	+0.1	118.48	126.14	2.02	130.18	118.26	125.38	135.02	100.00	91.88
World Ex. Japan (1959)	129.23	+0.6	117.47	125.72	2.77	128.48	116.71	124.91	129.23	100.00	94.21
The World Index (2417)	130.63	+0.1	118.74	126.19	2.03	130.46	118.52	125.43	135.15	100.00	91.76

lase values: Dec 31, 1986 = 100

EUROPEAN OPTIONS EXCHANGE

Series		Vol.	Last	Vol.	Last	Vol.	Last	Stock
		Aug 87		Nov 87		Feb 88		
GOLD C	$440	88	20	50	32	1	45.50	$454
GOLD C	$480	140	4.40	137	15.50	6	25	"
GOLD C	$500	7	1.50	61	10.50	13	17	"
GOLD C	$520	—	—	31	5.50	—	—	"
GOLD P	$400	—	—	14	2.50	—	—	"
GOLD P	$440	5	2.50B	120	9.50	—	—	"
		Sep 87		Dec 87		Mch 88		
SILVER C	$750	9	80	—	—	16	150	$780
SILVER C	$800	7	50	—	—	4	100	"
		Jul 87		Aug 87		Sep 87		
£/FL C	Fl.340	—	—	—	—	0.40	"	FL337.01
£/FL C	FL325	—	—	—	—	150	0.40	"
$/FL C	Fl.200	42	6.70	3	6.50	100	6.90	Fl.206.50
$/FL C	Fl.205	41	1.80	—	—	103	3.60	"
$/FL C	FL210	—	—	32	0.80	251	1.90	"
$/FL C	Fl.215	—	—	—	—	25	0.80A	"
$/FL P	Fl.195	—	—	—	—	50	0.60A	"
$/FL P	Fl.200	—	—	—	—	1	1.30	"
$/FL P	Fl.205	32	0.10	2	1.60	20	2.50	"
$/FL P	Fl.210	19	3.50	1000	4.70	—	—	"
		Dec 87		Mar 88		June 88		
$/FL C	Fl.195	—	—	—	—	10	12.50	Fl.206.50
$/FL C	Fl.200	10	7.80	—	—	—	—	"
$/FL C	Fl.205	534	5.50	12	6.50	10	7.30	"
$/FL C	Fl.210	24	3.70	506	4.60	—	—	"
$/FL C	FL215	38	1.70	—	—	—	—	"
$/FL P	Fl.190	50	0.90	—	—	—	—	"
		July 87		Oct 87		Jan 88		
ABN C	FL480	400	2	137	17.50	14	29	FL480.50
AEGON C	Fl.95	559	0.80	311	5.50	52	7.80	FL95.40
AEGON P	Fl.100	—	—	80	7.50	—	—	"
AHOLD C	FL110	2	0.60A	371	4.50	33	7	FL108.20
AHOLD P	Fl.110	3	1.50	50	5.80	30	7	"
AHOLD C	FL100	118	9	18	11.70	—	—	"
AKZO C	Fl.170	1687	1.30	1164	11.20	321	14.20	FL170.10
AKZO P	Fl.170	86	1	172	8	61	9.50	"
AMEV C	Fl.65	210	0.40	113	3.40	19	5.50	Fl.64.10
AMEV P	Fl.65	65	1	81	3.30	3	4.40	"
AMRO C	Fl.80	2119	1	866	4.20	89	5.80	Fl.80.30
AMRO P	Fl.75	1	0.10	172	1.80	4	2.70B	"
ELSVIER C	Fl.56	135	1	540	5.50	—	—	Fl.56.60
ELSVIER P	Fl.56	7	0.10	268	4	—	—	"
GIST-BROC. C	Fl.45	375	4.60	1070	6.60	25	8.80	Fl.49.70
GIST-BROC. P	Fl.50	7	0.70	217	2.90	20	4	"
HEINEKEN C	Fl.190	384	1	273	9.20	43	12.50	FL189
HEINEKEN P	FL180	28	0.10	45	3.70	—	—	"
HOOGOVENS C	Fl.45	335	2.30	146	5.10	49	6.70	Fl.47
HOOGOVENS P	Fl.45	—	—	40	2.20	—	—	"
KLM C	Fl.50	497	3.50	913	4.60	51	6.30	Fl.53.50
KLM P	Fl.50	—	—	240	1.90	—	—	"
NEDLLOYD C	Fl.160	17	0.10	248	5.80	5	7	Fl.147
NEDLLOYD P	FL140	65	0.10	215	4.50	10	7.50A	"
NAT.NED. C	Fl.70	166	3.50	365	5.40	53	7.50	FL73.50
NAT.NED. P	Fl.75	188	1.60	132	4.20	9	5.10	"
PHILIPS C	Fl.55	6103	1.30	2740	4.40	507	5.80	Fl.55.90
PHILIPS P	Fl.55	301	0.20	571	2.80	248	3.90	"
ROYAL DUTCH C	Fl.290	—	—	1845	9.20	188	14.20	Fl.286.30
ROYAL DUTCH P	Fl.250	—	—	412	1.20	2	2.50	"
ROBECO C	FL105	20	2	8	4.70	—	—	FL107.40
UNILEVER C	Fl.140	3457	2.20	955	8.50	181	11.10	FL142
UNILEVER P	FL136	10	0.10	645	2.50	22	4	"

TOTAL VOLUME IN CONTRACTS: 89,356

A=Ask B=Bid C=Call P=Put

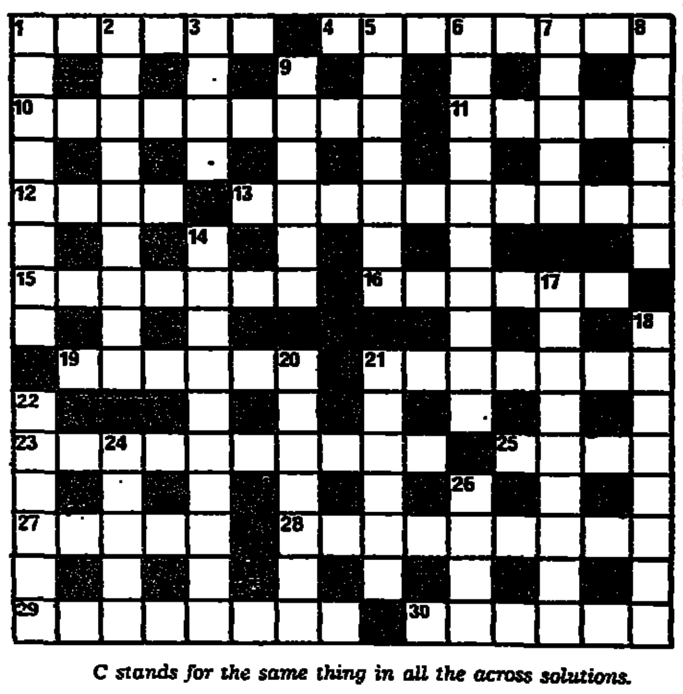
BASE LENDING RATES

	%		%		%
ABW Bank	9	● Charterhouse Bank	9	Nat Bk. of Kuwait	9
Adam & Company	9	Citibank NA	9	NatWestminster	9
Allied Arab Bk Ltd.	9	City Merchants Bank	9	Northern Bank Ltd.	9
Allied Dunbar & Co	9	Clydesdale Bank	9	Norwich Gen. Trust	9
Allied Irish Bank	9	Comm. Bk. N. East	9	PK Finans. Intl (UK)	9½
American Exp. Bk.	9	Consolidated Cred.	9	Provincial Trust Ltd	10
Amro Bank	9	Co-operative Bank	•9	R. Raphael & Sons	9
Henry Ansbacher	9	Cyprus Popular Bk.	9	Roxburghe G'rantee	9½
ANZ Banking Group	9	Duncan Lawrie	9	Royal Bk of Scotland	9
Associates Cap Corp.	9	Equat'r'l TstC'p plc	9	Royal Trust Bank	9
Authority & Co Ltd.	9	Exeter Trust Ltd.	9½	Smith & Williams Secs	9
Banco de Bilbao	9	Financial & Gen. Sec.	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Fin. Corp.	10	TSB	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd	10	UDT Mortgage Exp.	¶11.1
Bank Credit & Comm	9	● Robert Fleming & Co.	9	United Bk of Kuwait	9
Bank of Cyprus	9	Robert Fraser & Ptrs.	10	United Mizrahi Bank	9
Bank of Ireland	9	Girobank	9	Unity Trust PLC	9
Bank of India	9	Grindlays Bank	‡9	Western Trust	9
Bank of Scotland	9	● Guinness Mahon	9	Westpac Bank. Corp.	9
Banque Belge Ltd	9	HFC Trust & Savings	9	Whiteaway Laidlaw	9½
Barclays Bank	9	● Hambro Bank	9	Yorkshire Bank	9
Benchmark Tst Ltd	9	Heritable & Gen. Tst.	9		
Beneficial Trust Ltd	10	● Hill Samuel	§9		
Berliner Bank AG	9	C. Hoare & Co.	9		
Brit Bk of Mid East	9	Hongkong & Shangh.	9		
● Brown Shipley	9	Lloyds Bank	9		
Business Mtge Tst	9	Meghraj & Sons Ltd	9		
Cl. Bank Nederland	9	Midland Bank	9		
Canada Permanent	9	● Morgan Grenfell	9		
Cayzer Ltd	9	Mount Credit Corp. Ltd	9		

● Members of the Accepting Houses Committee. • 7-day deposits 4%. Savewise 6.66%. Top Tier—£2,500+ at 3 months' notice 7.97%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 4½% gross. ¶ Mortgage base rate. § Demand deposit 3.99%. Mortgage 11.25%.

FT CROSSWORD PUZZLE No. 6,380

CINEPHILE



C stands for the same thing in all the across solutions.

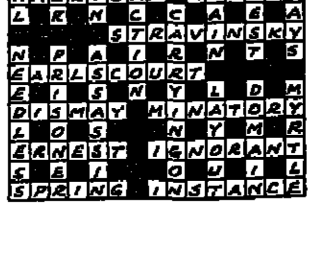
ACROSS

1 C rendered lily good (6)
4 C on British lines, like unfinished epic (8)
10 C, run-of-the-mill domicile, we hear (9)
11 C for love among prisoners (5)
12 C in a cold climate (4)
13 C to boot (10)
15 C (if Saint's first) cooked roe (eggs) (7)
16 C to call nothing back (6)
19 C, live one, on groove (6)
21 C puts note among others all *right* (7)
23 C is frank with change to change about (10)
25 C is part of Easter hat (4)
27 C (if new) sounds like gourmet's shop (5)
28 C (of county) turns Scot to game (9)
29 C forms barnacle with right for left (8)
30 C, wild and free? (6)

DOWN

1 All non-U guests could be exhausted on these (4,4)
2 Gale warning, alternative to Master of Ceremonies in rock (5,4)
3 Race of trees (4)
5 Discovered spirit produced blood (7)
6 Part of horse's skeleton produces *snip-on* belt (6,4)
7 Insignificant radiation? (5)
8 Sailor despatched elsewhere? (6)
9 Tidal wave like the North Wind (6)
14 Magnify possibility of sage in drag (10)
17 Pen's reservoir, maybe, or drink hole, possibly (3,6)
18 Bald man disturbed a hen in a slide (8)
20 Vehicle to send up painter about market (7)
21 Jakob the theosophist brings change of heart to Puccini opera (6)
22 A yard to one hundred it's sour (6)
24 Tower to copy London's in part (5)
26 A melody comes up in song (4)

Solution to Puzzle No. 6,379



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

حكذا منه الأصل

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance Co (UK)
St George's Way, Stevenage 0438 356101

Managed	453.6	477.5	----	—
Property	280.3	295.1	----	—
Equity	584.7	615.5	----	—
Gilt Edged	368.0	387.4	----	—
Deposit	204.3	215.1	----	—
Investment	250.0	262.5	----	—
International	418.3	440.3	----	—
Pension Fund Prices				
Managed Init.		338.2	----	—
Do. Accum.		410.3	----	—
Property Init.		243.0	----	—
Do. Accum.		297.3	----	—
Equity Init.		453.1	----	—
Do. Accum.		553.6	----	—
Gilt-Edged Init.		236.4	----	—
Do. Accum.		289.2	----	—
Guaranteed Init.		157.9	----	—
Do. Accum.		193.3	----	—
International Init.		302.3	----	—
Do. Accum.		614.2	----	—
Index Lk. Gilt Init.		137.9	----	—
Do. Accum.		168.6	----	—

Merchant Investors Assurance
Leon House, 233 High St, Croydon 01-686 9171

Property	301.7	+0.1	—
Property Pens.	398.3	+0.1	—
Equity	211.9	+1.3	—
Equity Pens.	967.5	+7.1	—
Money Market	316.5	+1.8	—
Money Mkt. Pens.	567.5	+3.2	—
Deposit	236.6	+0.0	—
Deposit Pens.	376.6	+0.0	—
Managed	306.8	+2.0	—
Managed Pens.	596.4	+5.4	—
Intl. Equity	351.0	+1.3	—
Do. Pens.	567.9	+3.1	—
Intl. Managed	325.5	+1.8	—
Do. Pens.	484.6	+3.6	—
North American	131.7	-0.8	—
Do. Pens.	150.8	-1.2	—
Far East	286.7	+0.4	—
Do. Pens.	418.0	+0.6	—
Intnl. Currency	174.9	+0.0	—
Do. Pens.	228.8	+0.1	—
Index Linked	134.2	+0.4	—
S & C Managed Fd.	146.9	+0.8	—
S & C Pens Mngd Fd	120.1	+0.9	—
Trustlink Life Funds			
Per Worldwide Rec.	166.5	+1.6	—
Per Far East Growth	208.4	+1.8	—
Per Intl Growth	157.6	+1.3	—
Per Income	177.5	+2.0	—
Per Emerging Co's	162.6	+0.8	—
Per American Growth	147.2	+0.6	—
Per European Growth	126.2	+0.8	—
Fra American & Gen	121.5	+0.7	—
Fra Capital	188.7	+2.2	—
Fra Income	194.1	+2.3	—
Fra Intl Growth	137.2	+1.2	—
Fra Japan & Gen	171.2	-0.5	—
Fra Recovery	202.4	+2.1	—
Fra Convertible & Gilt	149.1	+0.9	—
Fra European	133.4	+0.8	—
GAR American	127.6	+0.0	—
GAR European	156.2	+0.2	—
GAR Far Eastern	177.0	-0.2	—
GAR British	192.2	+2.1	—
GAR Global	171.9	+0.7	—
GAR Special Situations	208.8	+1.9	—
GAR Smaller Co's	228.1	+1.9	—
GAR Australian	180.8	+2.5	—
HEN Managed	181.5	+1.4	—
HEN UK Growth	195.2	+2.0	—
HEN UK Income	192.7	+1.7	—
HEN American	128.1	+0.6	—
HEN Far East	184.3	+0.9	—
HEN European	166.5	-0.1	—
HEN Prime Res Prop	104.3	+0.0	—
TSB American	140.4	+0.7	—
TSB General	187.9	+2.0	—
TSB Managed	165.5	+1.4	—
TSB Pacific	188.1	+1.0	—
TSB Selected Opps	190.1	+1.2	—
FID American	116.5	-0.9	—
FID Japan	113.4	+0.4	—
FID European	128.8	-0.5	—
FID UK	150.1	+0.5	—
FID Pacific	147.1	+0.1	—
FID Intl Managed	134.1	-0.2	—
FID Int. Income	123.0	+0.2	—
FID Intl Spec Sits	147.8	+0.1	—

Municipal Life Assurance Ltd
1 Sessions Hse Sq, Maidstone ME14 1XX 0622 690555

Initial Equity	170.0	179.5	+2.5	—
Initial Managed	153.0	161.5	+1.0	—
Initial International	151.5	160.0	+1.0	—
Initial Property	97.0	102.5	....	—
Initial Manifund	108.0	114.5	....	—
Initial European	119.5	126.5	+0.5	—
Initial Five Star	132.5	140.0	+1.0	—
Initial American	110.5	117.0	+2.0	—
Initial World Invest	113.5	120.0	+1.0	—
Initial Emerg. Mkts.	103.5	109.0	+1.0	—
Accum. Equity	211.0	222.5	+2.5	—
Accum. Managed	192.5	203.0	+1.5	—
Accum. Intl.	176.0	185.5	+1.0	—
Accum. Property	108.5	114.5	----	—
Accum. Manifund	119.5	126.0	....	—
Accum European	125.5	132.5	+0.5	—
Accum Five Star	142.5	150.5	+1.5	—
Accum. American	115.5	122.0	+2.5	—
Accum World Investment	116.0	123.0	+1.5	—
Accum Emerg. Mkts.	104.5	110.5	+1.5	—
Pens. Init. Equity	208.5	220.0	+3.5	—
Pens. Init. Managed	156.0	165.0	+2.0	—
Pens. Init Intl	167.5	177.0	+2.0	—
Pens. Init. Property	120.5	127.0	----	—
Pens. Init. Manifund	117.0	123.5	----	—
Pens. Init. European	130.5	137.5	+0.5	—
Pens. Init. Five Star	151.5	160.0	+2.0	—
Pens. Init. American	117.5	124.5	+3.5	—
Pens Init World Inv	121.5	128.5	+1.5	—
Pens. Init Emerg Mkts.	107.0	113.0	+1.5	—
Pens. Acc. Equity	244.5	258.0	+4.5	—
Pens. Acc. Managed	183.0	193.0	+2.0	—
Pens. Acc. Intl.	192.5	203.0	+2.0	—
Pens. Acc. Property	132.0	139.5	----	—
Pens. Acc. Manifund	129.5	136.5	----	—
Pens Acc European	137.0	145.0	+1.0	—
Pens Acc Five Star	160.5	169.5	+1.5	—
Pens Acc American	123.0	130.0	+1.5	—
Pens Acc World Invest	124.5	131.5	+2.0	—
Pen.Accum Emerg Mkts.	108.0	114.0	+1.5	—

NEL Britannia Assce Co Ltd
Milton Court, Dorking, Surrey 0306 887766

Capital Growth	123.20	129.70	+0.6	—
Managed Income	124.30	130.80	+0.3	—
Shareholder				
Deposit	103.6	109.10	----	—
Gilt	107.30	112.90	-2.6	—
Property	170.70	179.70	+2.3	—
Broker Managed				
Atlas Monthly Income	126.80	133.50	+1.0	—
Cross Channel F.S.	183.00	192.60	+1.7	—
Mandsley	120.00	126.30	+1.0	—
CTP Worldwide Mgd.	110.60	116.40	+1.1	—
TLM Intl Performance	108.50	114.20	+1.1	—
Jarretts Gen Fund	131.0	131.6	+0.6	—
Countrywide Portfolio	97.50	102.60	+0.4	—

NEL Pensions Ltd
Milton Court, Dorking, Surrey 0306 887766

Multichoice Funds				
MIM Brit Mngd P'folio	113.7	119.7	----	—
Do. Accum	120.0	126.3	----	—
Royal Tst Mgd P'folio	113.1	119.0	----	—
Do. Accum	119.4	125.7	----	—
Henderson Mngd P'folio	135.6	142.7	----	—
Do Accum	143.2	150.7	----	—
Perpetual Mngd P'folio	109.3	115.1	----	—
Do. Accum.	115.6	121.7	----	—

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

FOREIGN BONDS & RAILS

1987 High	Low	Stock	Price £	+ or –	Div % Gross	Red. Yield
53	42	Greek 7pc Ass.	53xd	.....	3.50	6.60
50	40	Do 6pc 28 Stb. Ass.	50	.....	3	6.00
47	45	Do 4pc Mixed Ass.	47	.....	2	4.26
66	58	Hung. '24 Ass.	65	–1	2.75	4.23
146½	122⅞	Hydro Quebec 15pc 2011	141¼	+¼	15.00	10.31
94	83	Iceland 6½pc '83-88	90	.....	—	—
136¼	115½	Do. 14½pc Ln. 2016	131¼xd	+½	14.50	10.91
103½	94	Ireland 9¾pc '91-96	101¼	+¼	9.75	9.49
98½	93	Japan 6% '83-88	94	.....	—	—

AMERICANS

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
41⅞	32½	Abbott Laboratories	36⅞	–⅞	$1.00	—	1.7
17	11¼	Ahmanson (H.F.)	12⅝	–¼	88c	—	4.2
35	24½	Alcoa $1	35	+1	$1.20	—	2.1
18⅞	15½	Allegheny & W $0.01	17⅞	–½			
14⅞	6½	Amax $1	14⅞	.....	—	—	—
26¼	17¼	Amdahl 5c	24½	–¼	20c	—	0.5
33	25½	Amer. Cyanamid $5	31	–½	$1.90	—	3.8
25⅛	18	Amer. Express $0.60	20¼xd	–¼	$1.44	—	4.4
	36¼	NYNEX $1	40⅝	–⅝	$3.48	—	5.3
	21¼	PHH	26¼xd	–¼	$1.08	—	2.4
	19⅛	Pacificorp $3.25	21⅝	–¼	$2.52	—	7.1
	13⅞	Pacific Telesis $0.10	15⅝	–¼	$1.64	—	6.4
	17¼	Pall Corp. 25c	18¼xd	.....	34c	—	1.1
	45½	Pennzoil 83c	50¼	+1⅛	$2.20	—	2.7
	21⅛	Pillsbury	26⅞	–⅛	$1.00	—	2.3
	26¼	Quaker Oats $5	31⅞xd	–⅛	80c	—	1.5
	28½	RJR Nabisco Inc.	33¾	–¼	$1.60	—	2.9
	27¼	Rep NY Corpn $5	31⅛	–1	$1.16	—	2.3
	15⅛	Rockwell Intl. $1	16¼	–⅛	66c	—	2.4

Continued on next page

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
ANZ Finance High Interest Cheque Acc				
Minerva Hse, Montague Cl, London, SE1 01-378 2576				
£250-£2,500	7.00	5.27	7.30	Qtr
£2,500+	9.00	6.77	9.52	Qtr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	8.30	6.00	8.64	Qtr
Aitken Hume				
30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	8.25	6.21	8.71	Qtr
MoneyChq £1000-£5000	8.00	6.02	8.48	Mth
Mkt. Int. Chq. £5,000+	8.25	6.21	8.75	Mth
AAB—Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-626 2046.				
HICA, HICMA	8.75	6.58	9.30	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc	8.10	6.09	8.59	Mth
Barclays Prime Account				
PO Box 125, Northampton 0604 252891				
High Int. Cheque	8.00	6.00	8.40	Qtr
Benchmark Trust Ltd Premier Account				
9 Henrietta Place, W1M 9AG. 01-631 3313				
£5,000-£10,000	9.00	6.77	9.43	6-mth
£10,001-£20,000	9.25	6.96	9.70	6-mth
£20,000+	9.50	7.15	9.97	6-mth
Brown Shipley & Co Ltd				
Founders Court, Lothbury, London EC2. 01-606 9833				
Demand Acc.	8.25	6.21	8.95	Qtr.
Charterhouse Bank Limited				
1 Paternoster Row, EC4M 7DH. 01-248 4000				
Sterling	8.25	6.21	8.75	Mth
U.S. Dollar	6.25	4.70	6.85	Mth
German Marks	3.00	2.26	3.13	Mth
Swiss Francs	2.50	1.88	2.60	Mth
Japanese Yen	3.00	2.26	3.13	Mth
Citibank Savings				
St Martins Hse, Hammersmith Grove W6 01-741 4941				
Money Market Plus				
£1,000-£24,999	7.50	6.00	8.45	Mth
£25,000	8.00	6.30	8.80	Mth
Co-operative Bank Cheque & Save				
78-80 Cornhill EC3 01-626 6543				
£500-£2,500	5.31	4.00	5.56	Qtr
£2,500+	7.31	5.50	7.69	Qtr

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Continued

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
30	22¾	Sara Lee $1	27 xd	–	$1.00	—	2.2
11	8⅞	Saul (B. F.) $1	10½ xd	–	20c	—	1.2
26¼	19⅞	Southwestern Bell $1	21⅞ xd	–¼	h$2.32	—	6.5
18¼	14¼	Staley Continental	17	–⅛	80c	—	2.9
44	36½	Sun Co. Inc. $1	41½ xd	–	$3.00	—	4.5
37	28½	TRW Inc. $1¼	32¾	–⅛	h$1.60	—	3.0
32	25⅞	Tenneco $5	31½	—	$3.04	—	5.9
187½	149½	Do. 10pcLn Stk. 91-5	187½ xd	.....	10%	—	5.5
28	17	Texaco $6.25	28 xd	+1½	$3.00	—	6.4
62	47¼	Time Inc. $1	62¼	–	$1.00	—	1.0
14½	11	Tracor $0.33	12¼	–½	40c	—	2.0
26⅞	18⅞	Transamerica $1	24⅞	–⅛	$1.76	—	4.3
12¼	922p	Transworld Corp $5	11⅞	.....	20c	—	1.0
46	29¼	TRINOVA Corp.	44½	–⅞	h$1.00	—	1.4
22	15	♥USX $1	22⅛	–	$1.20	—	3.3
19⅛	15	Union Carbide $1	18	–	$1.50	—	5.1
35	26⅛	Utd. Technologies	32⅞	–1	$1.40	—	2.6
38⅝	27	US West	31¼	–⅝	$3.28	—	6.5
25	17⅛	Waste Management $1	25¼	–⅜	—	—	—
£22¾	£20½	Whirlpool $1.0	£21¼	–½	—	—	—
35⅛	26	♥Woolworth $3½	34	–⅛	$1.32	—	2.4

CANADIANS

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
21p	10p	♥Abbot Energy Corp.	18½p	–½	—	—	—
12⅞	506p	♥Amer. Barrick Res.	12xd	+½	—	—	—
122p	52p	Armeno	74p	–5	—	—	—
19⅞	14⅞	Bk. Montreal ‖	16	–⅛	$2.00	—	5.8
10½	745p	Bk. Nova Scot.‖	858p	–16	72c	—	3.9
20⅝	18	BCE ‖	19½	–¼	$2.40	—	5.7
987p	712p	♥Bow Valley‖	980p	–5	40c	—	1.9
19¾	12⅞	♥Brascan‖	18⅛	+¼	88c	—	2.2
609p	277p	♥Breakwater Res.	446p	.....	—	—	—
11⅛	894p	Can. Imp.Bk. $2	10⅝xd	–⅛	$1.08	—	4.7
13⅛	865p	Can. Pacific ‖	13xd	–⅛	48c	—	1.7
42½	37½	Do. 4pc Deb £100	41½	.....	4%	—	9.6
13¼	756p	♥Echo Bay Mines	13	+½	20c	—	0.7
181p	66p	Euro-Asia Capital Ltd.	174p	.....	—	—	—
733p	283p	♥Galactic Resources	560p	.....	—	—	—
69p	32p	Global Data Systems	46p	–1	—	—	—
873p	399p	♥Granges Explo‖	742p	+27	—	—	—
18½p	10p	♥Gt Pacific Res.	16p	–½	—	—	—
14½	761p	♥Gulf Canada‖	13¼	–¼	52c	—	1.7
13¼	10	♥Hawker Sid Can‖	13	+⅛	96c	—	3.4
740p	460p	Hedlys Group	568p	–7	—	—	—
14⅛	10⅞	Hudson's Bay ‖	11⅛	–¼	60c	—	2.5
36	24⅞	♥Imperial Oil‖	35½	.....	$1.60	—	2.1
12¼	782p	Inco‖	12¼xd	+⅛	US$0.20	—	1.0
25⅞	14¼	♥Intl. Corona Res.	19	.....	—	—	—
695p	575p	♥Inland Nat. Gas $1	661p	–8	60c	—	4.2
10⅛	385p	♥Lacana Mining Corp‖	875p	+1	Q15c	—	0.8
363p	158p	♥Muscocho Expln.	301p	+20	—	—	—
10	748p	♥Ntnl Business Syst.‖	876p	–4	—	—	—
623p	338p	♥Nevada Goldfields	493p	–23	—	—	—
12	927p	♥Rio Algom	11	.....	$1.30	—	5.4
19⅛	14¼	Royal Bk. Can. ‖	16¼	–⅛	$2.00	—	5.5
385p	135p	♥Royex Gold Mining ‖	238p	+6	—	—	—
49½	40¼	Seagram‖	48½	–⅜	US$1.00	—	1.3
15	11½	Toronto-Dom. Bk.‖	14¼	–¼	84c	—	2.6
228p	19p	♥Trans Atlantic Res ‖	88p	+8	—	—	—
10⅛	789p	♥Trans Can Pipe	893p	–10	$1.12	—	5.8
184p	124p	Varity Corp‖	137p	–6	B—	—	—

BANKS, HP & LEASING

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
194	146	ANZ $A1	188	.....	bQ20.7c	2.4	5.0	8.4
*273	230	Allied Irish	258	–2	Q61.6%	2.8	5.5	9.0
£164	£135¾	Algemene Fl.100	£143¼	+½	nQ27%	2.1	5.8	8.2
*67	53	Anglo Irish	63xd	.....	gQ19.6%	1.4	7.0	16.1
108	84	Ansbacher (H.) 1p	108	+2	2.0	—	2.5	—
£40½	£24¼	Banco de Bilbao S.A.	£33¼	.....	Q38%	3.0	2.8	18.7
£30	£23½	Banco de Santander	£30⅛	.....	Q23.2%	♦	1.4	♦
*245	176	Bank Ireland Ir£1	238	–3	Q15.93%	2.9	6.1	8.2
£14	£11½	Bank Leumi	£14	.....	—	—	—	—
350	240	Bk. Leumi (UK)£1	350	.....	12.4	—	4.9	—
614	395	Bank Scotland £1	610	+1	16.5	3.4	3.7	10.8

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

INDUSTRIALS—Continued

INSURANCES

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INSURANCES—Continued

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
389	305	PWS Holdings 10p	389	+17	†q9.25	2.9	3.3	14.5
430	316	Pearl Group 5p	423	+8	10.5	—	3.4	—
*£11¼	804	Prudential	£10⅞	+¼	29.0	—	3.7	—
580	433	Refuge 5p	578	+16	15.75	—	3.7	—
553	423	Royal	548	+2	h15.5	—	3.9	—
*344	274	Sedgwick Group 10p	325	+2	12.0	1.7	5.1	13.9
339	207	Steel Burrill J. 10p	320		9.0	2.0	3.9	17.8
647	403	Stewart Wr. 20p	647	+11	13.0	2.0	2.8	23.0
605	377	Sturge Hldgs 20p	605	+5	†16.0	2.5	1.4	39.5
£10⅝	645	Sun Alliance	£10⅜		23.5	—	3.1	—
£12⅜	929	Sun Life 5p	£12⅛	+¼	28.5	—	3.1	—
£69	£39	♥Taisho M EDR	£47½	+1½	Q10%	—	0.9	—
£21¾	£14⅞	Torchmark $1.00	£17⅞	–⅛	Q60c	—	2.1	—
375	295	Trade Indemnity	365		4.3	—	1.6	—
£34	£24⅜	Travelers $1.25	£27½	–½	$2.28	—	5.1	—
£32½	£20⅝	USLIFE Corp. $1.0	£23¼	–⅜	Q$1.20	3.2	3.2	5.1
725	555	Utd Friendly B 10p	720	+2	21.0	—	4.0	—
464	367½	Willis Faber 12½p	445	+10	10.75	1.9	3.3	22.4
89	41	Windsor Secs. 10p	68	–5	†0.7	1.5	1.4	62.7

LEISURE

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
35½	11½	A & M Group 10p	30½	+4½	0.4	2.0	1.8	38.1
89½	69	A-R TV Pref. £1	89		5.95	48.1	12.2	—
242	189	Airsports 10p	215	–11	R5.4	2.5	3.5	15.6
*549	302	Anglia TV	443	+1	†q11.25	5.3	3.5	12.3
184	108	Aspinall Hldgs. 10p	167		6.0	1.2	4.9	22.9
141	63	Avesco 1p	128	+2	0.5	6.7	0.6	33.9
65	40	BCE Hldgs 5p	61½	–½	Rd1.0	3.0	2.2	20.4
255	132	Barr & W.A.T. 'A'	245	+2	8.0	1.4	4.5	20.0
58	19	Bond Media	43	–3	—	—	—	—
225	165	Boosey & Hawkes	225		—	—	—	—
83	45	Border T.V.	66	+2	†q2.5	3.2	5.2	16.6
[illegible]	[illegible]	Brent Walker 10p	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
176	131	SEET 20p	176	+3	5.3	3.3	4.4	10.0
198	109	Sekers Int. 10p	193	+3	2.65	♦	1.9	♦
165	127	Sirdar	165	+4	5.15	2.1	4.3	15.3
200	67	Smallshaw (R.) 10p	160	–15	2.75	4.1	2.4	14.2
135	32	Stoddard	105		1.3	♦	1.7	♦
83	32½	Do. 'A' 10p	75		1.3	♦	2.4	♦
850	290	Do. 10pc Cnv Prf	850		10%	—	1.6	—
241	133	Text'rd Jrsy. 10p	218	–3	6.0	♦	3.8	♦
480	298	Tomkinsons	480	+5	†4.0	5.1	1.1	23.4
157	102½	Tootal	155½	–1	4.25	2.0	3.7	15.6
337	236	Toray Y50	286	+1	Q12%	1.3	0.9	—
335	65	West Trust 2½p	335	+5			2.0	
363	210	Yorklyde 10p	353	+10	7.55	3.3	2.9	14.1
29½	6	Youghal	15		—	—	—	—

TOBACCOS

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
675	452	BAT Inds.	671	–1	14.3	3.2	2.9	12.9
£125	£109	Do. 12½pcLn 2003-08	£118¼	–⅛	Q12½%	23.8	10.4	—
413	177	Rothmans 12½p	404	–1	7.7	3.9	2.6	10.3

TRUSTS, FINANCE, LAND

Investment Trusts

1987 High	Low	Stock	Price	+ or –	Div Net	Cvr	Y'ld Gr's
182	129	Aitken Inv.	182	+1	2.5	2.1	1.9
£109⅞	865	Alliance Trust	£109⅞	+¼	25.0	1.0	3.3
275	181	Alva Investment Trust	275		2.6	♦	1.3
77	66½	Ambrose Inv. Inc.	70½		11.58	0.9	22.5
683	363	Do. Cap.	683	+5	—	—	—
171	138	American Trust	169	–2	3.3	1.4	2.7
166	139	American Tst. 'B'	166		—	—	—
528	377	Anglo & O'seas Trust	515	–1	7.0	1.2	1.9
195	143	Archimedes Inc.	193	+2	†10.9	1.0	7.7
373	175	Do. Cap. 50p	373	+5	—	—	—

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Continued

Tins

Miscellaneous

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
140	84	Anglo-Dominion	104	–2	—	—	—
90	21	♥Colby Res Corp.	51	–1	—	—	—
*295	127	Cons. Murch. 10c	288xd	+11	Q60c	4.4	6.5
*70½	37½	‡Ennex Int. Ir10p	58	–1	—	—	—
345	151	Greenwich Res	345	+30	—	—	—
£12¾	963	Hemlo Gold Mines	£12 1/16	+1/16	—	—	—
355	189	♥Highwood Res.	261	+3	—	—	—
£25⅞	£16⅞	Homestake Mining $1	£23	+¼	Q20c	—	0.5
442	150	♥McFinley Red Lake	400	–5	—	—	—
166	86	♥Musto Explorations	116	–4	—	—	—
104	37½	♥New Sabina Res C$1	104	+3	—	—	—
580	200	Northgate C$1	562	–7	—	—	—
237	104	Nor-Quest Resources	180		—	—	—
£12⅝	698	RTZ	£12½	+⅛	23.5	2.7	2.6
£359¼	£113¼	Do. 9½pcLn '95-2000	£257½	+7½	Q9½%	37.5	3.7

THIRD MARKET

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
485	180	Abelscot Group 10p	475		3.5	2.7	1.0	51.1
42	28	Aberdeen Am Pet 10p	42	+5	—	—	—	—
125	110	Allied Ins. Brokers	120		L3.5	2.5	4.1	13.9
83	78	Amercoeur Energy 10p	79		—	—	—	—
22	9	Ardmore Pet. 'A'	18	+2	—	—	—	—
98	45	Catalyst Comms. 5p	96	–1	—	—	—	39.9
200	168	Chelsea Artisans 5p	168	–5	—	—	—	22.5
180	155	Comac Group 5p	167	+2	—	—	—	—
151	47	Corton Beach 10p	135	–1	0.4	♦	0.4	♦
200	150	Crown Eyeglass 5p	180	–5	—	—	—	—
285	102	Edenspring Investment	278		—	—	—	—
*62	18	Eglinton Oil Ir.5p	31	+3	—	—	—	—
41	17	Do. Warrants	18	+1	—	—	—	—
82	17	Publishing Hldgs. 5p	79	–2	—	—	—	45.8
87	45½	Theme Holdings	83		1.0	♦	1.7	♦
140	111	Unit Group	140#		R4.6	2.5	4.5	10.0

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- || No par value.

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or –
Albany Inv 20p	90	
Craig & Rose £1	£20½	+½
Finlay Pkg. 5p	126	
Holt (Jos) 25p	990	
IoM Stm. £1	143	+8
IRISH		
Fund 11¼% 1988	£100¼	
Nat. 9¼% 84/89	£98½	
Fin. 13% 97/02	£111¼	
Arnotts	380	
CPI Hldgs	58	
Carroll Inds.	178	
Dublin Gas	18	
Hall (R. & H.)	125	
Heiton Hldgs.	48	
Irish Ropes	190	
Unidare	440	

TRADITIONAL OPTIONS

3-month call rates

Stock	p
Industrials	
Allied-Lyons	40
Amstrad	20
BAT	55
BOC Grp.	45
BSR	17
BTR	30
Babcock	19
Barclays	52
Beecham	50
Blue Circle	50
Boots	25
Bowaters	50
Brit Aerospace	55
Brit. Telecom	32
Burton Ord	35
Cadburys	22
Charter Cons.	40
Comm Union	30
Courtaulds	45
FNFC	30
Gen Accident	95
GEC	24
Glaxo	200
Grand Met	55
GUS 'A'	175
Guardian	90
GKN	30
Hanson Tst.	15
Hawker Sidd	50
ICI	125
Jaguar	52
Ladbroke	40
Legal & Gen.	32
Lex Service	45
Lloyds Bank	50
Lucas Inds.	62
Marks & Spencer	22
Midland Bk	55
Morgan Grenfell	35
NEI	12
Nat West Bk	65
P & O Dfd	65
Plessey	22
Polly Peck	28
Racal Elect	24
RHM	30
Rank Org Ord	70
Reed Intnl	45
STC	30
Sears	15
TI	34
TSB	10
Tesco	55
Thorn EMI	70
Trust Houses	24
Turner Newall	28
Unilever	300
Vickers	20
Wellcome	42
Property	
Brit Land	25
Land Securities	45
MEPC	42
Peachey	45
Oils	
Brit Petroleum	32
Britoil	32
Burmah Oil	45
Charterhall	6
Premier	11
Shell	110
Tricentrol	11
Ultramar	24
Mines	
Cons Gold	95
Lonrho	26
Rio T Zinc	90

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON STOCK EXCHANGE

Account Dealing Dates

*First Dealings	Option Declarations	Last Dealings	Account Day
Jun 29	July 9	July 10	July 20
July 13	July 23	July 24	Aug 3
Jul 27	Aug 6	Aug 7	Aug 17

* New time dealings may take place from 9.00 am two business days earlier.

Takeover activity features another strong equity session as Gilts also advance

Another very successful session in the UK equity market yesterday was backed up by a strong performance by the pound and the Government :, bond sector. Takeover speculation, prompted by unexpected bids from British Airways for British Caledonian, and from British & Commonwealth for Mercantile House, helped to drive the stock market to new highs. Prices topped off before the close, however, and several trading houses warned that the market looked "overbrought." The Gilt-Edged sector attracted Japanese buyers.

The stage seemed set for a highly successful launch for the BAA issue, which closed oversubscribed yesterday, and immediately moved to a 45p premium in the unofficial or grey market.

The FT-SE 100 index closed 24.2 up at its latest peak of 2443.4—the index has struck new peaks in each of the past six trading sessions. The market was driven ahead by substantial gains in the insurance, property and banking sectors, with bid speculation and trading results bringing many features among the industrials. Also at a new peak was the FT Ordinary Index, up 17.6 at 1926.2.

But the FT-SE index gain was cut back from 36 points at mid-session, when the market reacted nervously to a flood of rumours of impending rights issues, bids, and of disinvestment by Arab investors. While substance was lacking, the rumours underlined uneasiness among the traders, as shares soared on local rather than foreign, buying.

The strength of sterling, while not necessarily good for the blue chip exporting stocks, underpins the prospects for overseas investment in UK secvurities.

The privatisation issues, known favourites with Japanese funds, were firm although turnover in British Telecom (5.6m and British Gas (17m) was modest. British Airways, buoyant on its offer for British Caledonian, moved up sharply on turnover of 24m shares.

Government bonds quickly reversed early losses of ¼ or so on the signs of Japanese interest, and closed with net gains of ⅛. The improvement was "entirely sterling-driven," commented one trader, although the market was also quite satisfied with the latest Public Sector Borrowing Requirement, UK earnings, and unemployment statistics. Prices received further encouragement at the close when US buyers appeared.

The firmness in Gilts was welcomed by those London trading houses which have recently warned that equities might be rising too strongly by comparison with a gilt-edged market where yields have shown little change over the past three weeks. However, the renewed vigour in Gilts raises the chances that the authorities will bring forward a new long-dated tap stock.

Mercantile House, the money broking and securities concern headed by Mr John Barkshire, advanced 46 to 534p in response to the agreed bid from British and Commonwealth, Mr John Gunn's financial services and transport group, finally 28 dearer at 564p.

The offer, which values Mercantile at almost £500m, took the City by surprise, particularly in the light of last Monday's announcement that bid discussions had been terminated. Rumours were circulating late yesterday, however, that a counter-bid could be in the offing.

British Aerospace, down 3 more at 527p, continued to resist the trend in the wake of a downgraded profits forecast from Paribas Quilter Securities.

Mr Alan Coats of PQS along with a number of other City analysts is particularly concerned about currency influences on the company's performance and has downgraded his pre-tax profits forecast for 1987 from £210m to £124m.

Wellcome shares came back into the limelight, rising 23 to 492p as Hoare Govett, the UK securities house, put out a strong "buy" circular.

Based on the likely growth in totals of AIDS sufferers worldwide, Hoare predicts that sales of Wellcome's Retrovir drug could reach £1bn by 1990, implying a trebling of the group's pre-tax profits.

The financial sector was given a substantial boost by the agreed bid for Mercantile House from British and Commonwealth, which re-ignited bid fervour in the merchant banks.

Morgan Grenfell remained the prime takeover target in the sector with strong UK and Continental buying lifting the shares to 493p before a closing level of 489p, a net gain of 8.

The clearing banks posted further good gains reflecting a stock shortage and talk of a broker's bullish circular in the offing. Interim results from the big-four commence on Friday when Lloyds reports. **Barclays** spurted 20 to 649p, after 654p, **NatWest** jumped 19 to 789p, after 794p, **Lloyds** 11 to 429p and **Midland** 9 to 648p.

Insurance shares staged another impressive advance on bid speculation. This lifted **Pearl** to 440p before a closing level of 423p, up 8 on the day. **Abbey Life** attracted heavy support and rose 23 to 320p following the good new business figures. New figures from **London and Manchester**, itself a bid favourite, helped the shares move up 6 to 343p. Brokers showed **Dewey Warren** up 15 at 280p on a rumour that Robert Holmes a Court could use the company as an acquisition vehicle. **PWS** jumped 15 to 387p following the completion of a large selling order.

Stock shortages often exaggerated gains in the Building sector. Market makers described business as relatively thin, but **Blue Circle** raced ahead to 580p prior to closing a net 16 higher at 562p. **RMC** rose 15 to 573p and **BPB Industries** 8 to 874p. **Redland** picked up 8 at 569p, while **Rugby Portland Cement** firmed 4½ afresh to 293½p. Among Contracting and Construction issues, **AMEC** went from strength to strength with a further rise of 16 at 449p. On the other hand, profit-taking clipped 9 from **Barratt Developments** at 241p. **Bellway** rose 17 to 320p on details of the formation of a new subsidiary company with Hull City Council to develop a 150-acre site on the bank of the River Humber at an estimated cost of some £50m. **Finlan** gained 21 to 181p and **F. J. C. Lilley** 5 to 68½p on speculative buying, while **Burnett and Hallamshire** put on 5½ more to 35½p.

ICI were no more than a steady market as talk of a sizeable American seller persisted; there were also rumours that a broker had downgraded profits estimates; the interim figures are due on July 30. Among other Chemicals, demand persisted for **Sutcliffe Speakman** which rose 7 more to 158p.

Dixons rallied 13 to 376p reflecting a generally favourable Press response to the preliminary figures; the possibility of the group making an offer for MFI should not—according to securities house Wood Mackenzie—"be allowed to mask the extent to which Dixons is fundamentally undervalued." Secondary Stores were highlighted by **Miss Sam** which spurted 32 to 192p following disclosure of a bid approach. **Amber Day**, still buoyed by the recent stake taken by a consortium headed by Mr Irving Sellar, firmed 7 more to 125p, but profit-taking left **John Kent** 10 lower at 136p, and **Martin Ford** 14 off at 237p.

Of the leading electricals**Plessey** ran back to 224p following the chairman's remarks at the annual meeting which prompted widespread selling before a rally left the shares a shade easier at 228p. A report that ITT may be about to sell its 24 per cent stake boosted **STC** 8 to 329p. Elsewhere, **United Scientific** jumped 35 more to 349p, still buoyed by the sale of loss-making subsidiary Rollei, while **Jones Stroud** gained 20 to 370p on the results and scrip issue. **Logica** advanced 18 to 380p in the wake of the board changes, while the interim results left **Dewhurst "A"** 13 up at 64p.

Among the Engineers, comment on the preliminary figures prompted a sharp gain of 23 to 121p in **MS International**. Investment demand persisted for **APV Baker**, up 10 further at 788p, while **A. Cohen**, still relfecting recent press commen, improved a similar amount to 835p. **Davy Corporation**, up 13 further at 227p, continued to attract buyers, while **Hampson Industries** responded to the good results with a gain of 7 at 93p.

Tate and Lyle remained the strong feature of the Food sector, the price rising a further 34 to 918p; the shares were recently recommended by Warburg Securities and sentiment was given an additional boost by the potential profit to be realised on the possible sale of its 15 per cent stake in S. & W. Berisford. US demand lifted **Cadbury Schweppes** a penny to 286p, while traded option activity helped **Tesco** rise 4 to 199p. Demand persisted for **Unigate**, up 12 more at 443p, while fresh support ahead ofthe results due shortly lifted **Dee Corporation** 6 to 256p. **United Biscuits** gained 11 to 343p on talk of a broker's recommendation, while **Bejam** put on 56 to 284p as rumours of an imminent bid from Iceland Frozen Foods revived.

British Airways, up 10 at 170p, were actively traded (some 23m shares changed hands) in the wake of the surprise news of the agreed merger with the British Caledonian Group. Elsewhere in the miscellaneous sector, **Wellcome** featured a rise of 23 at 492p following a Hoare Govett circular, while **Beecham** continued to move ahead strongly, losing 16 higher at 585p. **BOC**, helped by the joint Turkish venture, improved 18 to 556p.

Rockware, the glass and packaging company, advanced 16 to 127p following the announcement of several acquisitions for a total consideration of some £24.15m to be partly financed by an offer of new shares to institutional investors and shareholders at 100p per share. **Erskine House**, also on acquisition news, gained 15 to 303p. **Rank Organisation** made a strong initial response to the better-than-expected interim figures and rose to around 847p before falling back on profit-taking to close only 4 better on balance at 820p. Renewed demand ahead of the proposed five-for-one shares split took **Blue Arrow** up 20 further to 999p. **United Packaging** jumped 55 to 200p on news of the bid approach.

GRA featured Leisure issues, the price rising 9½ to 146½p, after 150p, amid suggestions that Wembley Stadium could be injected into the company.

Jaguar responded to domestic and international demand, rising 19 to 581p following news of record production and sales in the first half of this year. Speculative demand for **Airflow Streamlines**, the component manufacturer and Ford main dealer, showed no sign of flagging as the shares advanced 40 to 253p. Buyers also returned for **Appleyard**, 27 to the good at 435p, **Jessups**, 5 dearer at 253p, and **Lex Service**, 4 better at 477p;

The Property leaders took another decisive step forward amid rumours of an imminent bid for **MEPC** from a Far-Eastern concern. **MEPC** leapt 17 to 584p, while **Land Securities** gained 17 more to 590p. **Great Portland Estates** were up 12 at 318p and **Slough Estates** firmed 5 more to 312p. **Rohan** rose 20 to 255p pending news of the bid approach. **Glentree** advanced 40 more to 405p in a restricted market. **Cons Tern** closed at 175p compared with the suspension price of 80p following details of a capital injection

Courtaulds, up to 532p at one stage, drifted back to close a few pence easier on the day following reports of a lunch with a leading securities house. Elsewhere in the Textile market.

Oil and gas shares gave a mixed response to the latest upsurge in oil prices. Share prices rose sharply early on, gave ground in the early afternoon on widespread profit-taking, and then moved up confidently late in the session, when US buyers appeared.

British Gas, spurred on by local and renewed Japanese interest, settled 2 firmer at a record 200p. **BP**, where more than 8m shares changed hands, rose 7½ to 412p, in the wake of reports that its 12.45 per cent stake in the Ninian field is up for sale and that it could be considering floating off its computer subsidiary.

Lonrho broke through the 300p barrier, touching 305p at one stage before settling 10½ up on balance at 301p; the apparent success of the Tokyo listing—dealings are due to start next Thursday—had led brokers to issue encouraging circulars on the group's prospects and to point out the beneficial aspects of the listing on gearing.

Traded Options

Traded option activity was featured by a strong demand for British Airways calls following the surprise bid for British Caledonian. BA attracted 11,659 calls and 947 puts. British Gas were again popular and recorded 6,822 calls and 4,230 puts, while GEC contributed 5,093 calls and 1,131 puts. Total contracts struck amounted to 70,365—the highest so far this month.

Traditional Options

- First dealings July 6
- Last dealings July 17
- Last declaration Oct 8
- For Settlement Oct 19

For rate indications see end of London Share Service

Stocks dealt in for the call included Common Bros., United Scientific, C. Baynes, NEI, Neill and Spencer, Amstrad, Marler Estates, Abaco, Property Trust, B. Priest, Control Securities, Kelleck, Petrogen, Lonrho, GKN, Astra Industrial, William Morrison, Consolidated Gold Fields, Hawtin, Eagle Trust, Platignum, Epicure, Bejam, Raglan, Rotaprint, Beck, Trimoco, Rolls-Royce, Associated British Engineering, Central and Sheerwood, Greenall Whitley, Ryan Hotels, Blacks Leisure, Pentland Industries, Norfolk Capital, GEC, Cronite and British Airways. No puts were reported but Scottish and Newcastle were dealt in for the double.

FINANCIAL TIMES STOCK INDICES

	July 16	July 15	July 14	July 13	July 10	Year ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	91.12	90.95	90.70	90.74	90.55	89.48	93.32 (8/5)	84.49 (6/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	98.51	98.29	98.30	98.29	97.90	96.14	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1926.2	1908.6	1892.6	1877.8	1892.6	1316.8	1,926.2 (16/7)	1,320.2 (2/1)	1,926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	423.0	414.6	413.4	405.2	407.4	186.3	485.0 (14/4)	288.2 (19/2)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	2.99	3.02	3.05	3.08	3.09	4.19				
Earnings Yld.%(full)	7.25	7.32	7.40	7.46	7.49	10.10				
P/E Ratio (net) (*)	16.96	16.78	16.60	16.47	16.42	12.05				
SEAQ Bargains (5 pm)	61,215	61,528	54,795	62,414	64,970	—				
Equity Turnover (£m)	—	2458.30	1584.11	1799.50	2104.32	531.53				
Equity Bargains	—	72,719	69,093	77,624	70,750	22,083				
Shares Traded (ml)	—	—	827.0	—	913.8	266.4				

S.E. ACTIVITY

Indices	July 15	July 14
Gilt Edged Bargains	168.2	158.0
Equity Bargains	471.2	447.7
Equity Value	4968.9	3201.9
5-Day Average		
Gilt Edged Bargains	131.1	120.4
Equity Bargains	457.4	447.1
Equity Value	3986.7	3764.8

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1913.9	1921.7	1924.3	1927.5	1933.2	1934.6	1934.1	1924.4

Day's High 1936.2 Day's Low 1931.9. Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, *Nil=16.65.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (398)

BRITISH FUNDS (3), AMERICANS (2), CANADIANS (1), BANKS (4), BREWERS (1), BUILDINGS (31), CHEMICALS (9), STORES (16), ELECTRICALS (30), ENGINEERING (28), FOODS (13), HOTELS (1), INDUSTRIALS (82), INSURANCE (7), LEISURE (7), MOTORS (7), NEWSPAPERS (1), PAPERS (15), PROPERTY (21), SHIPPING (5), SHOES (1), SOUTH AFRICANS (1), TEXTILES (12), TRUSTS (75), OILS (13), OVERSEAS TRADERS (2), PLANTATIONS (2), MINES (6), THIRD MARKET (2).

NEW LOWS (0)

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
ASDA-MFI	3,600	218	−1	Jaguar	4,500	581	+19
Allied Lyons	1,400	466	+2	Ladbroke	1,300	458	+4
Amstrad	1,700	182	+3	Land Securities	2,800	590	+17
Argyll Group	1,400	477	−1	Legal & Gen.	672	356	—
Assoc. Brit. Foods	344	415	—	Lloyds Bank	4,200	429	+11
BAT	2,700	671	−1	Lonrho	6,500	301	+10½
BET	1,100	309	+5	MEPC	2,900	584	+17
BOC	2,200	556	+18	Marks & Spencer	2,600	272	+5
BPB Inds	311	874	+8	Midland Bank	2,400	644	+5
BPCC	600	323	+6	NatWest Bank	4,200	789	+19
BTR	3,000	354	—	Next	1,100	353	+4
Barclays	3,800	649	+20	Pearson	340	759	+6
Bass	577	£10½	+¼	P & O	1,000	773	+11
Beecham	5,200	585	+16	Pilkington Bros	2,500	£10⅝	—
Blue Circle	1,800	562	+18	Plessey	8,800	228	−1
Boots	1,900	314	—	Prudential	622	£10⅞	+¼
Brit. Airways	23,000	170	+10	Racal	7,900	290	+4
Brit. Aero	3,800	527	−3	Rank Org	1,600	820	+4
Brit. & Comm.	4,600	564	+28	RHM	568	340	−2½
British Gas	14,000	200	+4	Reckitt & Col	614	£12⅛	+¼
Britoil	3,700	348	+2½	Redland	713	569	+8
BP	8,700	410	+5½	Reed Intl.	2,900	556	+5
Brit. Telecom	5,400	300½	+1	Reuters	438	886	+4
Bunzl	1,200	261	+2	RMC	248	573	+15
Burton	482	326	—	RTZ	1,800	£12½	+⅛
Cable & Wire	1,800	413	+3	Rolls-Royce	3,400	122	−1
Cadbury Schwps	4,000	286	+1	Rowntree	430	580	+5
Coats Viyella	566	363	−13	Ryl Bank Scotland	1,800	409	+13
Comm. Union	2,200	374	−1	Royal Insurance	3,300	548	+2
Cons. Gold	1,200	£12⅝	+¼	STC	3,700	329	+8
Cookson	366	792	+2	Saatchi & Saatchi	681	682	−12
Courtaulds	804	522	−3	Sainsbury	1,400	285½	+½
Dee Corpn	4,600	256	+6	Scott & Newcastle	289	259	−2
Dixons Group	3,200	376	+13	Sears	2,800	176	−½
English China Clays	307	540½	+5½	Sedgwick	357	325	+2
Fisons	1,200	397	+3	Shell Trans	3,000	£14⅞	+¼
Gen. Accident	237	£11¼	—	Smith & Nephew	1,900	192½	+2
Gen. Elect	18,000	237	+3½	Standard Chart	606	810	−2
Glaxo	1,500	£18⅞	+¼	Storehouse	881	302	+1
Globe Investment	433	195½	+2	Sun Alliance	532	£10⅞	—
Granada	750	358	+3	TSB	8,900	93½	+2
Grand Met	1,800	594	+3	Tarmac	2,100	338	−3
GUS "A"	54	£14⅝	—	Tesco	2,300	199	+4
Guardian R.E.	138	£11¼	—	Thorn EMI	1,300	806	+12
GKN	3,600	402	+2	Trafalgar House	2,700	436	+7
Guinness	3,000	376	+5	T'house Forte	434	277	+1
Hammerson	128	650	—	Unigate	1,600	443	+12
Hanson Trust	6,200	191½	—	Unilever	635	715	—
Hawker Sidd.	494	614	−6	United Biscuits	2,500	343	+11
Hillsdown Hldgs	1,500	324	−4	Wellcome	4,000	492	+23
ICI	1,600	£15¼	+⅛	Whitbread "A"	531	370	—
				Woolworth	798	418	+7

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	104	1	7
Corporations, Dominion and Foreign Bonds	24	1	34
Industrials	733	349	477
Financial and Properties	252	105	240
Oils	48	23	43
Plantations	4	3	7
Mines	85	23	82
Others	50	115	102
Totals	1,300	620	992

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

	Equity Groups & Sub-Sections	Thursday July 16 1987 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 27%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Wed July 15 Index No.	Tues July 14 Index No.	Mon July 13 Index No.	Year ago (approx.) Index No.
1	CAPITAL GOODS (212)	1038.07	+0.6	6.60	2.62	18.96	11.21	1032.27	1023.33	1018.29	721.62
2	Building Materials (30)	1381.08	+0.9	6.44	2.48	19.35	15.55	1368.34	1356.67	1359.02	816.85
3	Contracting, Construction (33)	1951.50	+0.2	6.14	2.45	21.87	19.38	1946.74	1911.62	1901.15	1256.12
4	Electricals (12)	2706.42	+0.4	5.49	2.86	23.46	36.50	2695.90	2688.10	2686.92	1862.98
5	Electronics (35)	2205.81	+1.0	6.87	2.22	18.63	15.26	2183.52	2163.46	2140.96	1616.87
6	Mechanical Engineering (60)	541.14	—	7.46	3.13	16.83	7.80	540.98	538.35	533.98	403.17
8	Metals and Metal Forming (7)	588.17	−0.1	6.66	2.68	18.09	6.86	589.02	580.32	576.27	347.13
9	Motors (14)	406.20	+1.1	7.52	2.62	15.45	3.42	401.65	393.64	391.46	304.73
10	Other Industrial Materials (21)	1712.49	+0.2	5.62	2.83	21.44	22.53	1708.64	1704.68	1701.03	1294.71
21	CONSUMER GROUP (185)	1406.32	+0.8	5.63	2.41	22.80	14.33	1395.05	1383.34	1376.80	921.23
22	Brewers and Distillers (22)	1269.35	+0.5	7.39	2.81	17.03	11.77	1262.74	1253.53	1259.46	924.85
25	Food Manufacturing (24)	1092.25	+0.2	6.44	2.80	20.18	15.12	1090.46	1075.76	1058.09	682.63
26	Food Retailing (16)	2649.96	+1.1	4.92	2.19	27.71	21.16	2622.00	2605.45	2599.04	1840.99
27	Health and Household Goods (10)	2699.85	+1.4	3.75	1.48	31.22	15.11	2661.81	2603.65	2581.27	1566.90
29	Leisure (31)	1480.59	+1.1	5.58	2.94	23.21	20.36	1464.79	1462.23	1454.02	899.37
31	Packaging & Paper (15)	739.48	+0.5	5.53	2.33	23.94	7.88	735.88	729.41	728.68	479.08
32	Publishing & Printing (15)	4564.47	+1.1	4.61	3.00	27.88	59.63	4516.75	4489.40	4461.53	2558.76
34	Stores (36)	1157.89	+1.0	6.15	2.47	22.07	12.81	1145.98	1149.83	1153.11	875.29
35	Textiles (16)	864.21	−1.4	7.20	2.59	16.12	11.71	876.07	868.78	853.15	549.85
40	OTHER GROUPS (86)	1192.30	+0.6	7.23	2.93	17.27	11.06	1185.52	1177.27	1160.45	771.70
41	Agencies (16)	1785.00	−0.1	3.71	1.34	35.56	9.76	1786.84	1755.36	1730.33	0.0
42	Chemicals (22)	1471.02	+0.9	6.69	2.99	18.33	19.79	1458.23	1456.32	1452.51	925.59
43	Conglomerates (12)	1546.12	+0.6	6.78	2.96	16.90	18.93	1536.22	1519.46	1510.11	0.0
45	Shipping and Transport (11)	2497.85	+1.9	6.26	3.22	21.08	37.76	2451.74	2443.47	2434.15	1478.28
47	Telephone Networks (2)	1164.15	+0.4	8.64	3.47	15.45	2.95	1159.41	1149.48	1118.05	805.31
48	Miscellaneous (23)	1711.29	+0.1	8.23	2.61	14.55	18.61	1709.08	1702.56	1667.29	1058.13
49	INDUSTRIAL GROUP (483)	1268.86	+0.7	6.31	2.60	20.03	12.80	1260.28	1250.09	1240.92	841.71
51	Oil & Gas (17)	2458.68	+1.2	4.45	3.76	29.09	37.29	2429.74	2437.48	2425.80	1208.67
59	500 SHARE INDEX (500)	1369.88	+0.8	6.02	2.78	21.03	14.94	1359.57	1350.91	1341.54	874.32
61	FINANCIAL GROUP(118)	882.11	+1.6	—	3.34	—	13.48	868.44	857.13	855.03	615.86
62	Banks (8)	898.38	+2.2	15.42	4.17	8.57	16.24	878.89	862.29	853.67	662.85
65	Insurance (Life) (9)	1190.53	+2.2	—	3.54	—	20.71	1165.24	1152.05	1160.45	876.29
66	Insurance (Composite) (7)	647.13	—	—	3.78	—	11.76	646.80	642.91	642.64	498.19
67	Insurance (Brokers) (9)	1365.34	+1.4	7.88	3.96	16.35	26.32	1345.91	1338.71	1338.22	1195.28
68	Merchant Banks (11)	489.75	−0.2	—	2.76	—	6.88	490.54	487.67	492.05	347.05
69	Property (46)	1374.86	+1.6	3.46	2.15	37.37	12.06	1353.66	1334.35	1332.92	796.08
70	Other Financial (28)	603.48	+2.3	5.49	2.68	22.91	7.17	589.67	581.62	577.34	342.92
71	Investment Trusts (91)	1149.12	+0.5	—	2.09	—	11.12	1143.59	1139.73	1138.02	756.75
81	Mining Finance (2)	622.46	+2.3	5.44	2.67	21.12	6.79	608.23	591.94	581.39	254.39
91	Overseas Traders (10)	1197.17	+2.0	7.55	3.93	15.73	23.27	1173.54	1163.29	1163.61	674.79
99	ALL-SHARE INDEX(721)	1238.57	+0.9	—	2.85	—	14.37	1227.45	1218.15	1210.66	797.37

	Index No.	Day's Change	Day's High	Day's Low	July 15	July 14	July 13	July 10	July 9	Year ago
FT-SE 100 SHARE INDEX ♣	2443.4	+24.2	2455.2	2427.5	2419.2	2403.0	2386.6	2382.0	2371.0	1609.3

FIXED INTEREST

	PRICE INDICES	Thurs July 16	Day's change %	Wed July 15	xd adj. today	xd adj. 1987 to date
	British Government					
1	5 years	123.30	+0.19	123.49	0.42	6.83
2	5-15 years	143.51	+0.27	143.32	0.21	7.83
3	Over 15 years	154.58	+0.35	154.04	—	6.85
4	Irredeemables	168.02	+0.24	167.62	—	7.27
5	All stocks	139.77	+0.26	139.65	0.24	7.37
	Index-Linked					
6	5 years	123.01	—	123.01	—	1.57
7	Over 5 years	116.67	+0.20	116.44	—	1.86
8	All stocks	117.02	+0.18	116.80	—	1.82
9	Debentures & Loans	123.53	−0.03	123.57	—	6.17
10	Preference	88.65	—	88.65	—	3.49

	AVERAGE GROSS REDEMPTION YIELDS		Thurs July 16	Wed July 15	Year ago (approx.)
	British Government				
1	Low	5 years	8.08	8.13	8.16
2	Coupons	15 years	8.85	8.89	9.16
3		25 years	8.86	8.90	9.18
4	Medium	5 years	8.96	9.02	9.50
5	Coupons	15 years	9.08	9.12	9.49
6		25 years	9.09	9.12	9.49
7	High	5 years	9.13	9.18	9.68
8	Coupons	15 years	9.23	9.27	9.64
9		25 years	9.04	9.07	9.48
10	Irredeemables †		8.77	8.81	9.15
	Index-Linked				
11	Inflat'n rate 5%	5 yrs	2.35	2.34	3.88
12	Inflat'n rate 5%	Over 5 yrs	3.74	3.75	3.54
13	Inflat'n rate 10%	5 yrs	2.08	2.07	2.57
14	Inflat'n rate 10%	Over 5 yrs	3.69	3.70	3.36
15	Debs &	5 years	10.12	10.13	10.03
16	Loans	15 years	10.12	10.13	10.32
17		25 years	10.12	10.13	10.38
18	Preference †		10.24	10.24	10.68

♣ Opening index 2427.5; 10 am 2437.3; 11 am 2442.6; Noon 2447.5; 1 pm 2451.1; 2 pm 2452.4; 3 pm 2451.8; 3.30 pm 2447.2; 4 pm 2440.6

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

Option		Calls July	Calls Oct.	Calls Jan.	Puts July	Puts Oct.	Puts Jan.
Allied Lyons (*466)	390	80	92	103	0¼	2½	5
	420	50	67	78	1	10	12
	460	13	35	55	5	20	27
Brit. Airways (*171)	140	31	36	45	0½	3	8
	160	11	22	31	2	9	16
	180	1¼	12	23	13	18	26
British Gas (*198)	165	33	36	44	0½	3	7
	180	18	25	33	1	6	9
[illegible]							

Option		Calls Aug.	Calls Nov.	Calls Feb.	Puts Aug.	Puts Nov.	Puts Feb.
Guinness (*377)	330	50	63	77	3	8	15
	360	27	43	55	9	18	23
	390	9	27	40	25	33	38
Ladbroke (*458)	403	62	75	—	2	6	—
	420	—	—	70	—	—	13
	443	27	45	—	9	18	—
	460	17	36	45	17	25	28
LASMO (*362)	280	86	93	102	1½	3	4
[illegible]							

LONDON RECENT ISSUES

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§110	F.P.	14/8	156	111	Babygro 10p	156	+4	R2.4	3.2	2.1	18.7
§77	F.P.	30/6	155	96	♦Bonded Laminates 10p	152	......	L2.4	2.4	2.2	26.6
155	F.P.	7/8	193	158	Britannia Group (5p)	193	+3	R3.85	3.0	2.7	16.8
250	F.P.	31/7	372	250	Caradon 5p	366	......	L6.0	3.0	2.2	18.9
§120	F.P.	31/7	195	150	♦Colorvision 5p	186	−4	R2.2	2.7	1.6	31.0
‡ ‡	F.P.	—	200	166	Cresta Hldgs 10p	200	......	—	—	—	8.2
§100	F.P.	—	121	116	♦Economic Forestry	121	......	R3.0	2.5	3.4	16.1
§95	F.P.	—	168	113	Elys 5p	168	......	L2.1	3.20	1.7	24.9
§80	F.P.	—	170	101	*Far East Res. 10p	170	+5	—	—	—	—
§178	F.P.	17/8	249	223	Glamar Group 10p	243	+3	u6.5	1.7	3.7	21.4
††	F.P.	10/8	285	278	Grahams Rin'l Inv. Tst 5p	280	......	—	—	—	—
§135	F.P.	13/8	222	184	Harland Simon (10p)	222	+3	L1.9	4.1	1.2	28.7
§150	F.P.	31/7	190	150	♦Hey and Croft 10p	180	......	R3.85	3.4	2.9	13.8
§105	F.P.	31/7	126	120	ITL Inf. Tech.10p	125	......	R2.0	3.3	2.2	19.1
105	F.P.	5/8	215	105	♦Knobs & Knockers 10p	173	+22	L1.17	4.60	1.0	32.3
§165	F.P.	14/8	231	165	Lancaster	231	......	L2.75	3.5	1.6	23.8
§175	F.P.	22/7	210	190	♦Learm'th & Burch 10p	206	......	Lh1.3	5.8	0.8	30.4
§295	F.P.	—	341	338	Monarch Res. 10p	341	......	—	—	—	—
§130	F.P.	15/7	215	163	Neotronics 5p	215	......	R1.8	4.2	1.1	28.4
§110	F.P.	4/8	220	185	♦Parkway 5p	220	......	R1.5	4.2	0.9	34.7
§200	F.P.	—	208	201	Primadona	208	+2	a2.25	5.1	1.5	18.0
§165	F.P.	31/7	265	183	♦Ross C'sum. Elec. 10p	245	−5	L3.5	2.6	1.9	26.5
§35	F.P.	—	47	35½	♦SEP Ind'l. Hldgs 5p	45	+1	—	—	—	21.0
††	F.P.	—	£46¼	£39¼	St. Gobain FF100	£45¾	......	Q8%	q4.1	1.8	13.5
§100	F.P.	—	103	97	Saltire Insurance	98	......	—	—	—	—
§63	F.P.	31/7	89	76	♦Shelton (Martin) 10p	88	......	u1.75	2.3	2.7	21.7
§20	F.P.	17/7	57	31	♦Stance Exhibition 5p	57	+4	0.29	4.0	0.7	48.4
145	F.P.	17/7	195	147	Tie Rack 5p	150	......	R1.1	4.2	1.0	32.6
§125	F.P.	6/4	167	158	♦UCL Group 5p	161	......	u2.5	2.8	2.1	22.7
§130	F.P.	—	193	175	Warner Howard 5p	192	+4	R2.66	2.70	1.9	25.4

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price £	+ or −
‖	F.P.	24/7	111p	105p	Anglo Utd. Cnv. Red. Prf.	111p	......
100	F.P.	—	127p	109p	Asda Prop. 5½% Cnv. Cum. Red Prf. 2012	127p	......
‖	F.P.	24/7	143p	127p	Dencora 6¼% Cum. Cnv. Red. Pf.	143p	......
‖	F.P.	7/8	126p	104p	Elliott (B) 7% Cnv.Cum.Red Prf.	126p	+1
§100	£10	10/9	9	7	Essex Water 9⅞% Red. Deb. '97-99	9	......
§	£50	11/9	50¾	47⅞	Govett Strategic Inv Tst 9⅞% Deb 2017	49½	+½
††	F.P.	10/8	37p	37p	Grahams Rintoul I.T. Pfd. 20p	[illegible]	
[illegible]							

"RIGHTS" OFFERS

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WORLD STOCK MARKETS

AUSTRIA

BELGIUM/LUXEMBOURG

DENMARK

FINLAND

FRANCE

GERMANY

ITALY

NETHERLANDS

NORWAY

SPAIN

SWEDEN

SWITZERLAND

AUSTRALIA

AUSTRALIA (Continued)

HONG KONG

JAPAN

JAPAN (Continued)

SINGAPORE

SOUTH AFRICA

OVER-THE-COUNTER Nasdaq national market, closing prices

Continued from Page 41

CANADA

TORONTO

Closing prices July 16

MONTREAL

Closing prices July 16

Indices

NEW YORK-DOW JONES

STANDARD AND POORS

N.Y.S.E. ALL COMMON

TORONTO

NYSE-Consolidated 1500 Actives

LONDON – Most Active Stocks
Thursday, July 16, 1987

	Stocks Traded	Closing Price	Change on Day		Stocks Traded	Closing Price	Change on Day
Brit Airways	23.80m	170	+10	BP	8.70m	410	+5½
Gen Elect	18.80m	237	+3½	Racal	7.90m	288	+4
Brit Gas	14.80m	200	+4	Lonrho	6.50m	301	+10½
TSB	8.90m	93½	+2	Hanson Trust	6.20m	191½	—
Plessey	8.80m	228	−1	Brit Telecom	5.40m	308½	+1

TOKYO – Most Active Stocks
Thursday, July 16, 1987

	Stocks Traded	Closing Prices	Change on Day		Stocks Traded	Closing Prices	Change on Day
Minolta Steel	22.19m	453	+6	Sanken Electric	5.98m	965	+24
Nippon Steel	13.73m	814	−6	Sumitomo Heavy Ind	5.67m	320	−16
Matsushita Elec Ind	12.33m	2,380	+60	Ishikawajima-Harima	5.64m	615	−12
Daikin Ind	6.56m	880	−11	Nippon Kokan	5.30m	268	+3
NEC	6.50m	1,840	−60	Mitsubishi Corp	5.11m	1,230	−20

LONDON Chief price changes (in pence unless otherwise indicated)

RISES:

Treas.13¾pc2000-03	132²⁷⁄₃₂	+¹³⁄₃₂
Treas.13½pc2004-08	137²⁷⁄₃₂	+¹³⁄₃₂
Airfl. Streaml.	253	+40
Avon Rubber	834	+42
Beecham	585	+16
Bellway	320	+17
Blue Arrow	999	+20
Blue Circle	562	+18
British Airways	170	+10
Brit & Commonw.	564	+28
Burnett & Hall	35½	+5½
Dixons	376	+13
Edinb. Oil & Gas	56	+7
Erskine House	303	+15
Jaguar	581	+19
Land Securities	590	+17
Lonrho	301	+10½
MEPC	584	+17
MS Intl.	121	+23
Mercantile House	534	+46
Morgan Grenfell	487	+6
Polly Peck Intl	349	+17½
Rockware	127	+16
Tate & Lyle	918	+34
Unigate	443	+12
Utd Packaging	200	+55

FALLS:

Mersey Docks	205	−22
GRA	146½	+9½

N. AMERICAN QUARTERLY RESULTS

BANK OF BOSTON — Banking

DUN & BRADSTREET — Business information

McGRAW-HILL — Business publishing

PPG INDUSTRIES — Plate glass

BOWATER INC — Newsprint, paper

W. R. GRACE — Chemicals

NYNEX — Telephone holding company

REYNOLDS METALS — Aluminium

BURLINGTON INDUSTRIES — Textiles

B. F. GOODRICH — Plastics, chemicals

PFIZER — Pharmaceuticals

SECURITY PACIFIC — Banking

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 41

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NYSE COMPOSITE CLOSING PRICES

Continued from Page 40

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
14⅛	7¾	SeaCt pf1.46		10.		33	14	13⅞	14	+⅛
17½	10½	SeaC pfB2.10		12.		82	17	16⅞	17	+⅜
17½	9¾	SeaC pfC2.10		12.		200	17⅛	16⅞	17⅛	+½
52¼	34½	SeaC pfD4.12		8.2		10	50	49⅞	50	+½
80	37⅞	Seagrm	1	1.3	17	1349	79⅞	78⅞	79¼	+¼
22½	12⅛	Seagul			12	47	u22⅞	22½	22⅞	+⅜
52¼	33⅛	SealAir	.52	1.1	22	83	49¼	48½	49¼	+⅜
39¼	23⅛	SealPwL.10		3.0	15	800	37¼	36¾	37¼	+⅜
56	39	Sears	2	3.9	13	5483	51¾	50⅞	51⅛	−⅛
42½	32	SecPac1.80		4.4	8	847	41⅛	40¾	41⅛	+½
29¾		Tyler	.40	2.7	29	255	15⅛	14	15	+⅞

U U U

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
48½	18	UCCEL			36	308	40½	40⅛	40¼	−¼
27⅛	17¼	UDC	s 2.20	12.	6	75	19¼	18¾	18⅞	−⅜
32	24	UGI	2.04	7.3	13	78	28⅛	27¾	28⅛	+⅛
11¼	8¼	UNCInc			15	150	10¼	10⅛	10¼	
31⅞	20⅞	UNUM n.30e		1.3		700	23⅞	23¼	23¾	+⅛
21⅞	14⅞	URS			18	128	18½	18¼	18½	
48¾	38¼	USFG	2.48	6.2	10	1649	40⅛	39⅞	39⅞	−⅛

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
7¾	2	WrldCp				92	7⅛	7	7	−⅛
19¾	14⅞	WrldVl n				74	18⅞	18½	18¾	+¼
54⅞	39⅛	Wrigly s1.04		2.0	19	67	53¼	52¾	53	
3⅞	1⅝	Wurltzr				38	2⅝	2½	2½	
18⅞	11	WyleLb .32		1.9	34	356	17¼	16¾	16⅞	−⅜
24¾	16	Wynns .80		3.2	14	9	19⅛	18⅞	19	−⅛

X Y Z

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
81¼	48⅝	Xerox	3	4.0	18	5194	76	75⅛	75⅝	+⅛
58¼	54¾	Xerox pf5.45		9.8		234	56⅛	55¼	55¾	+½
28⅞	21½	XTRA	.64	2.3		188	28¾	28⅛	28⅝	−¼
27¼	15	Yorkln			13	508	u27⅞	27	27⅞	+⅜
6	2¼	Zapata				3485u	6¾	5⅞	6¾	+⅞
39	20¾	Zayre	.40	1.4	18	3086	u30¾	28	28½	−1⅜
14⅛	9¾	Zemex	.40	3.1	6	8	13	13	13	
29⅝	18⅞	ZenithE				1234	27¼	26¾	26⅞	−½
13½	8	ZenLab				753	10	9¾	9⅞	+⅛
19½	12⅝	Zero	.36	2.1	18	777	17½	17⅛	17¼	
28½	16⅝	Zumin s			19	97	28⅜	27⅝	27⅝	−½
10⅜	8⅝	Zweig n.95e		9.4		1985	10⅛	10	10⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 39

FINANCIAL TIMES

WORLD STOCK MARKETS

AMERICA

Steady flow of corporate profits supports peak

WALL STREET

MORE GOOD profit figures and some new takeover situations helped Wall Street share prices to rise to record levels yesterday for the third session running, *writes Roderick Oram in New York.*

Some support came from the credit markets where a stronger dollar allowed bond prices to edge back up after heavy losses on Wednesday on news of a big trade deficit.

The Dow Jones industrial average closed up 13.23 points at 2,496.97. Late in the session it traded a fraction over the 2,500 level before slipping back. Many stock index players have picked that level as a trigger point for selling futures so analysts expect the index to run into difficulties in its attempts to close above 2,500.

Traders and analysts expressed satisfaction, though, with the pick up in volume over the past 10 days. The present rally, which has brought the Dow up 11 per cent since May 20, had been much maligned for its low volume and narrow breadth. The recent improvement in its profile, helped in part by good second-quarter profit reports, has raised hopes for further gains.

The New York Stock Exchange volume yesterday was 210.9m with advancing issues outnumbering those declining by a ratio of three-to-two.

Many broader market indices also set records with the Standard & Poor's 500 closing up 2.28 at 312.70, the NYSE composite up 1.12 to 175.70 and the American Stock Exchange composite up 2.20 at 353.09. Despite a two-point rise to 433.21, the over-the-counter composite index fell just short of its record.

In addition to profit reports, stocks were also boosted by takeover news. Jim Walter leapt $12½ to $58 on volume of almost 4.4m shares. The Florida-based building materials group received a $50-a-share leveraged buyout offer from Kohlberg Kravis and Roberts worth in total more than $1.5bn.

Marine Midland soared $18 to $77¾. Analysts expect Hongkong and Shanghai Bank will have to sweeten its $70-a-share offer for the 49 per cent of the US banking group it does not already own.

Several more banks have reported hefty second-quarter losses because of large additions to loan-loss reserves. Their shares were unaffected, however, with Bank of Boston unchanged at $33½ and Security Pacific rising $⅛ to $41⅛.

Great Northern Nekoosa, down $1⅜ to $41¾, is to pay $1.15bn for the packaging operations of Owens-Illinois. Elsewhere in the forest products sector, Champion rose $1¼ to $36¾ on a big jump in earnings.

Drug companies turned in mixed quarterly results. Merck rose $3⅝ to $183⅝ and Upjohn added $1⅝ to $48⅝ on higher earnings while Warner-Lambert was unchanged at $78⅝ on lower profits.

Two securities dealers announced poor results. Shearson Lehman fell $⅜ to $27½ after earnings increased only marginally because of higher costs. E. F. Hutton fell $⅜ to $40⅞ on an overall loss after trading losses.

Philip Morris rose $2¼ to $95¾. The tobacco and drinks group announced a 30 per cent increase in second-quarter profits and a $1bn buyback of up to 10m of its shares equal to 4.2 per cent of those outstanding.

AT&T, up $⅞ to $31⅛, justified analysts recent recommendation of it with second-quarter earnings of 55 cents a share against 37 cents a year earlier.

Credit markets enjoyed a partial recovery from the losses on Wednesday triggered by a far larger than expected trade deficit. Help came from a rise of about Y1 in the dollar, about half the ground it lost the previous day.

The 8.75 per cent benchmark Treasury long bond edged ahead slowly through the session leaving it up ¼ of a point by late afternoon at 101 11/16 yielding 8.59 per cent.

CANADA

RESOURCE ISSUES continued to fuel the rally in busy Toronto trading.

Oils, golds, minerals and metals were stronger with base metals underpinning the market.

Dome Petroleum went against the trend, slipping 5 cents to C$1.08 as the company continues to seek an extension of its interim debt plan.

Other oil stocks were stronger on higher crude prices.

Banks were little changed after Wednesday's weakness.

SOUTH AFRICA

GOLD SHARES closed firm in Johannesburg as the bullion price held steady above $450 after a sharp gain on Wednesday in response to the latest US trade figures.

Profit-taking late in the day saw some losses, but these were still small.

Among golds, Western Deep firmed R5 to R220 and Libanon was up R3.75 at R88.75, but Vaal Reefs eased R3 to R474 on profit-taking.

Industrials performed well, with the index rising 16 to a new peak of 2,040.

Mining financials saw Anglo American slip 25 cents to end at R86. Elsewhere in the mining sector, Rustenburg Platinum added 75 cents to R58.75.

Richard Tomkins on the rush for the latest UK privatisation

BAA flotation is heavily oversubscribed

THE £1.2bn ($1.95bn) flotation of BAA, formerly the British Airports Authority, seems likely to have drawn at least as many applications as the heavily oversubscribed Rolls-Royce issue earlier this year.

Thousands of last-minute applicants braved the rain in London yesterday morning to beat the 10 o'clock deadline for handing in their forms at the receiving banks.

Counting of the applications is still going on, but early guesses put the total at between 2m and 2.5m. The Rolls-Royce issue in February attracted 2m applications, while the figures for earlier privatisations were 1.1m for British Airways, 4.5m for British Gas, 5m for TSB and 2.3m for British Telecom.

The Rolls-Royce issue, at £1.4bn, was of a similar size to BAA's and the public part of its offering was more than 9 times subscribed. If the response to the BAA offer is heavier, a ballot may become inevitable, but the Government still hopes to avoid one.

Enthusiasm for the BAA issue has been buoyed by further strong rises in the stock market since the issue was priced early last week. Yesterday Cleveland Securities, the licensed dealer, was making a grey (unofficial) market in the shares in advance of stock exchange dealings, quoting 142p bid and 147p offered for the partly-paid 100p stock.

The 25 per cent of the BAA issue which was set aside for the tender offer has also been heavily subscribed. Up to 100,000 applications are thought to have been received, with some large institutional investors bidding up to 300p fully-paid 245p share. The cut-off price, below which no bidders will receive any shares, could therefore be well above the 270p maximum bid level advised by many stockbrokers' analysts.

County NatWest, the merchant bank advising the Government on the flotation, hopes to announce the result of the fixed price offer on Saturday and the tender offer early next week. Dealings begin on Tuesday July 28.

The closing day of the offer was a low-key affair compared with those of other recent privatisation issues. No Government minister turned up to watch the final stages, nor were there long queues of applicants outside the receiving banks.

The banks' increasing efficiency in dealing with large numbers of applicants was one reason for the absence of queues. Another was that many applicants chose to hand in their forms earlier, so causing unprecedented queues outside the London receiving banks the day before the offer closed. Nevertheless, the influx of applicants yesterday morning caused the now-customary traffic jams in the City's narrow streets.

London boosted by takeovers

TAKEOVER news and a strong performance by the pound and Government bonds combined to drive UK equities to new highs. Prices topped off before the close, however, and several trading houses warned that the market looked overbought.

The FT-SE 100 index closed 24.2 higher at its latest peak of 2,443.4 after surging 36 points earlier, and the FT Ordinary index was also at a high of 1,926.2, a gain of 17.6.

The market was driven ahead by substantial gains in the insurance, property and banking sectors. Takeover speculation was prompted by unexpected bids from British Airways for British Caledonian and from British & Commonwealth for Mercantile House.

Government bonds closed with gains of ½ on Japanese interest.

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EUROPE

Brussels surges to record high in active trading

HIGHER OIL prices and the weaker dollar were the two main influences on European trading yesterday. Brussels and Oslo rose to highs on stronger crude prices while the dollar affected export-oriented stocks in other bourses.

Brussels soared to a record high in heavy trading for the season. The index closed up 47.51 at 5,059.50 after a day of active buying and selling. Blue chips did well, especially industrial companies.

The energy sector ended its week-long slide with major companies enjoying recoveries on higher oil prices.

Heavy buying pushed Tractebel up BFr 290 to BFr 7,880 and Petrofina gained a weighty BFr 400 to close at BFr 12,550.

In chemicals, Solvay added BFr 150 to BFr 14,150 and Gevaert closed BFr 50 stronger at BFr 7,850.

Oslo continued its run of records, climbing to the fourth high this week. The all-share index gained 3.73 to 348.87 in very busy trading.

Oil issues maintained their good performance of recent days on uncertainty over Gulf supplies and on the higher crude prices.

Frankfurt slipped lower in response to the weaker dollar and also retreated as part of a downward correction following four consecutive advances.

The bourse was undermined by rumours that Volkswagen would introduce short-time working after the summer holidays and many traders unloaded VW shares which pushed prices down. VW ended DM 11.30 down at DM 413 after hitting a low of DM 410.50 earlier in the day.

Following VW's lead, Daimler shed DM 4.50 to DM 1,157 after several days of gains and BMW slipped DM 2 to DM 706.

Bonds closed firmer where changed. The Bundesbank sold DM 95.6m of paper after buying DM 89.9m on Wednesday.

Milan moved higher on improved volume and optimism that a new coalition government would be formed soon.

Montedison, which was listed on the New York Stock Exchange yesterday, advanced L80 to L2,450. Olivetti added only L5 to L12,300 while insurer Generali ended up L500 at L132,950.

Amsterdam saw an active session with good foreign demand for banking and insurance stocks. The ANP-CBS general stock index slipped just 0.10 below Wednesday's record of 316.10.

Blue chips did well, attracting good buying interest from abroad and Dutch multinationals did well on the dollar's partial recovery.

Royal Dutch gained Fl 3.80 to Fl 286.30 on firmer oil prices and Philips was up 90 cents to Fl 55.90

Stockholm held onto high prices amid fairly active trading and despite some profit-taking after nine days of advances. The Veckans Affarer all-share index was unchanged at 1,054.1 but turnover was down compared to the previous unusually high levels for July.

Construction issues and blue chips did well.

Paris followed the dollar to end lower at the close of trading. Stock market personnel resumed work, ending a protest which prevented the monthly settlement market from operating on Wednesday.

The main session started late as a result of the dispute with export-oriented food issues and electronics lower on the softer dollar.

TRT fell FFr 100 to FFr 2,020 and Thomson-CSF followed with a FFr 28 slip to FFr 1,362. Radiotechnique eased FFr 34 to FFr 1,491.

Zurich finished mixed to moderately higher in busy trading marked by selective buying and selling in blue chips.

Madrid saw a day of nervous trading in anticipation of June's inflation figures, due out today.

The general index rose 1.19 to 256.93.

ASIA

US data rattle Japan's investors

TOKYO

DISMAYED by the unexpected US trade deficit figure for May, investors changed course several times in extremely thin trading on the Tokyo market yesterday, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average finished just 33.85 higher to 24,003.61, narrowly breaching the 24,000 mark again. Volume, however, dwindled even further from Wednesday's 499m shares to 437m, the second smallest for this year. Losses outpaced gains 458 to 435, with 140 issues unchanged.

Taken aback by the poor trade figures, institutional investors and dealers moved away from high-technology issues and demand-related stocks in the morning in view of the sharp advance of the yen against the dollar.

But later they apparently began to consider the increased deficit as only a temporary setback in the basically steady improvement in the US trade balance. In the afternoon, they switched back to high-tech stocks as Wall Street prices rallied to hit a record high.

Matsushita Electric Industrial, with 12.33m shares traded, gained Y60 to Y2,300 after suffering a Y60 decline in the morning. Sharp added Y20 to Y1,210 and Sony Y40 to Y3,980, but heavy electricals fell, with Hitachi down Y30 at Y1,050 and Toshiba Y9 to Y611.

NEC, a leading high-tech stock, fell Y60 to Y1,840 on transactions totalling 6.5m shares. There was a persistent rumour, denied by the company, that NEC, like Toshiba Machine, had also violated the rules of Cocom concerning high technology exports to communist countries.

Large-capitals lost their morning gains. Nippon Steel, with 13.73m shares traded, had gained Y8 but closed Y6 lower at Y314. Ishikawajima-Harima Heavy Industries finished Y12 down at Y616 after rising Y14, while Mitsubishi Heavy Industries lost Y7 to Y576.

Constructions soared in the morning but slackened later, with Taisei finishing at Y1,050, up Y30, and Ohbayashi at Y1,020, up Y20.

In a generally lacklustre market, buying of small-capital issues for quick profits continued. Ashimori Industry jumped Y50 to Y950 and Copal Y100 to Y1,050, while Asahi Optical advanced Y79 to Y610. But Tokyotokeiba and Yokohama Rubber turned down, shedding Y30 to Y1,030, and Y5 to Y489, respectively.

Bond prices nose-dived after rising sharply following a rise by Japanese Government bond futures on the London International Financial Futures Exchange (Liffe). Investors took the view that the US trade figures would fuel a rise in the yen.

The yield on the bellwether 5.1 per cent government bond due in June 1996 dropped from 4.370 per cent on Wednesday to 4.100 per cent. But this proved a major barrier, and selling swelled as the yield dropped. It later soared to close at 4.350 per cent in block trading on the Tokyo Stock Exchange and at 4.400 per cent in inter-dealer trading.

HONG KONG

IN ANOTHER active session in Hong Kong, a surge of buying by foreign investors forced local traders to cover their early short positions and pushed the Hang Seng index up 43.52 to 3,305.82, its third record in three days.

Further rumours that the Cheung Kong group had put off a rumoured fund-raising plan gave the market a boost.

Hongkong Bank was 10 cents higher at HK$9.45 following its offer to take full control of Marine Midland. Bank of East Asia gained HK$1.10 to HK$28.70 and Hang Seng Bank HK$1.50 to HK$47.

Cheung Kong added 10 cents to HK$12.70 and Sun Hung Kai Properties rose 60 cents to HK$18.10.

AUSTRALIA

OVERSEAS investors again piled into Sydney as the bullion price and oil futures pressed ahead, the Australian dollar picked up, and local interest rates eased.

The All Ordinaries index pushed on up to its second consecutive record, gaining 25.8 to 1,960.

Interest again centred on Mr Robert Holmes' a Court's Bell Resources, up 16 cents at A$5.16 on 7.6m shares traded. His Bell Group added 30 cents to A$8.80.

Oil gains saw Santos add 10 cents to A$7.46 and Ampol Exploration was 20 cents higher at A$6.30.

Among the golds, Poseidon rose 30 cents to A$5.60 and Central Norseman 17 cents to A$3.

Industrials generally made only slight advances.

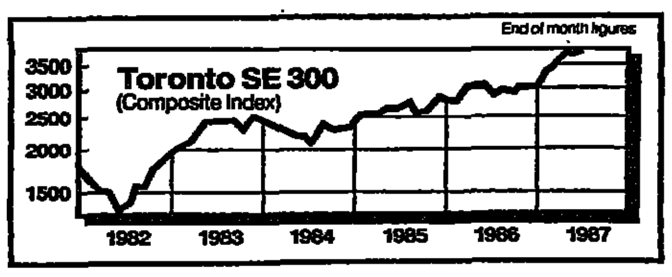
SINGAPORE

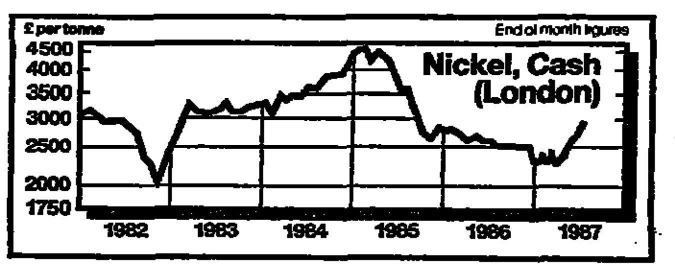
EARLY GAINS evaporated amid profit-taking in Singapore and the Straits Times industrial index finished unchanged at a record 1,380.71 in lower turnover than on Wednesday.

Trading in UOB was suspended at S$8.65 pending an announcement by the bank.

Mixed blue chips included gains for DBS, up 60 cents at S$15.90, and Haw Par, 10 cents higher at S$5.65, while Genting lost 15 cents to S$7.20 and OCBC 10 cents to S$10.40.

KEY MARKET MONITORS





STOCK MARKET INDICES

	July 16	Prev	Year ago
NEW YORK			
DJ Industrials	2,496.97	2,483.74	1,774
DJ Transport	1,044.78	1,041.62	723.63
DJ Utilities	204.17	204.00	200.92
S&P Comp.	312.70	310.42	235.10
LONDON FT			
Ord	1,926.2	1,908.6	1,316.80
SE 100	2,443.4	2,419.2	1,597.30
A All-share	1,238.57	1,227.45	797.37
A 500	1,369.88	1,359.57	874.30
Gold mines	423.0	414.6	186.3
A Long gilt	9.04	9.07	9.50
World Act. Ind (July 15)	130.46	129.30	135.15
TOKYO			
Nikkei	24,003.61	23,969.76	17,700.9
Tokyo SE	2,004.23	1,985.54	1,376.38
AUSTRALIA			
All Ord.	1,960.0	1,934.2	1,127.0
Metals & Mins.	1,254.4	1,212.7	494.5
AUSTRIA			
Credit Aktien	198.41	191.43	238.11
BELGIAN SE	5,059.5	5,011.90	3,658.04
CANADA			
Toronto			
Met & Mins.	3,264.4	3,221.5	1,963
Composite	3,998.1	3,977.4	2,976.4
Montreal			
Portfolio	2,024.77	2,014.13	1,490.00
DENMARK SE			
SE	(u)	205.24	203.44
FRANCE			
CAC Gen	n/a	n/a	388.3
Ind. Tendance	105.80	n/a	87.90
WEST GERMANY			
FAZ-Aktien	542.19	543.69	534.32
Commerzbank	1,949.20	1,951.20	1,789.7
HONG KONG Hang Seng	3,305.82	3,262.30	1,763.38
ITALY Banca Comm.	680.15	671.52	654.37
NETHERLANDS ANP CBS			
Gen	317.10	316.10	288.5
Ind	266.60	266.20	288.8
NORWAY Oslo SE	455.61	449.53	350.12
SINGAPORE Straits Times	1,380.71	1,380.70	734.18
SOUTH AFRICA JSE			
Golds	—	2,267	1,275.7
Industrials	—	2,040	1,205.4
SPAIN Madrid SE	256.93	255.74	171.18
SWEDEN J & P	2,874.80	2,865.20	2,467.27
SWITZERLAND Swiss Bank Ind	632.10	632.50	527.6

COMMODITIES (London)

	July 16	Prev
Silver (spot fixing)	477.55p	473.66p
Copper (cash)	£1,016.50	£1,004.50
Coffee (July)	£1,196.50	£1,199.00
Oil (Brent Blend)	$20.45	$20.275

GOLD ($/oz)

	July 16	Prev
London	$453.25	$452.75
Zürich	$453.75	$453.55
Paris (fixing)	$451.55	$447.10
Luxembourg	$453.40	$448.70
New York (August)	$455.45	$455.30

CURRENCIES (London)

	US DOLLAR July 16	US DOLLAR Previous	STERLING July 16	STERLING Previous
$	—	—	1.6310	1.6320
DM	1.8370	1.8295	2.9950	2.9850
Yen	150.50	148.55	245.50	242.50
FFr	6.1150	6.0925	9.9750	9.9425
SFr	1.5290	1.5220	2.4950	2.4850
Fl	2.0675	2.0605	3.3725	3.3625
Lira	1,329.5	1,324.5	2,167.5	2,160.75
BFr	38.05	38.00	62.05	62.00
C$	1.3220	1.3235	2.1550	2.1600

INTEREST RATES

	July 16	Prev
Euro-currencies (3-month offered rate)		
£	9 9/16	9¼
SFr	3⅞	3⅞
DM	3¾	3¾
FFr	8	8
FT London Interbank fixing (offered rate)		
3-month US$	6 11/16	6¾
6-month US$	7⅛	7 1/16
US Fed Funds	6½*	6⅝
US 3-month CDs	6.55*	6.775
US 3-month T-bills	5.555*	5.73

FINANCIAL FUTURES

	Latest	High	Low	Prev
CHICAGO				
US Treasury Bonds (CBT) 8% 32nds of 100%				
July 16 (Sept)	91–25	91–27	91–12	92–17
US Treasury Bills (IMM) $1m points of 100%				
(Sept)	94.18	94.20	94.15	94.12
Certificates of Deposit (IMM) $1m points of 100%				
(Sept)	n/a	n/a	n/a	n/a
LONDON				
Three-month Eurodollar $1m points of 100%				
(Sept)	92.83	92.84	92.80	92.80
20-year Notional Gilt £50,000 32nds of 100%				
(Sept)	124-21	124-24	123-30	124-11

US BONDS

Treasury

	July 16* Price	July 16* Yield	Prev Price	Prev Yield
7⅞ 1989	100 4/32	7.302	100 1/32	7.355
7 1994	98 30/32	8.200	98 25/32	8.243
8½ 1997	100 27/32	8.38	100 6/32	8.478
8¾ 2017	101 16/32	8.57	101 11/32	8.606

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index July 16	Day's change	Yield	Day's change
1–30	163.17	+0.23	6.93	−0.03
1–10	154.63	+0.12	6.68	−0.03
1– 3	144.03	+0.07	6.37	−0.03
3– 5	157.57	+0.17	6.71	−0.03
15–30	193.58	+0.59	7.78	−0.03

Source: Merrill Lynch

Corporate

	July 16* Price	July 16* Yield	Prev Price	Prev Yield
AT&T 3⅞ July 1990	93.19	6.45	93.19	6.45
SCBT South Central 10⅞ Jan 1993	102.5	10.27	102.5	10.27
Phibro Sal 8 April 1996	91.79	9.40	91.79	9.40
TRW 8⅜ March 1996	96.49	9.35	96.49	9.35
Arco 9⅞ March 2016	101.66	9.70	101.66	9.70
General Motors 8⅜ April 2016	84.81	9.70	84.81	9.70
Citicorp 9⅜ March 2016	91.09	10.35	91.09	10.35

Source: Salomon Brothers

* Latest available figures

SECTION III

FINANCIAL TIMES SURVEY

Partnership is now the key word in discussing the rejuvenation of Britain's inner cities and BiC is playing a vital role in bringing together government, local authorities, the private sector and the communities themselves. **Ian Hamilton Fazey** reports

Prince Charles, BiC's President, on a tour this month with local businessmen in London's East End.

Business in the Community

CONTENTS

The umbrella for city work

THE ROLE of the private sector has never been more crucial in the rebuilding of Britain's urban communities. Last week the new cabinet committee in charge of the Government's overall urban strategy decided that partnership, not extra cash, would be the mechanism of regeneration.

The partnership in question is between government, local authorities, the private sector and the communities themselves. The Government's cash contribution will be mainly for pump-priming. The bulk of the working capital to make things actually happen will have to come from industry and commerce.

Will this work? Will the private sector respond? Getting industry and commerce into the right frame of mind will depend in no small measure on Business in the Community (BiC), an emergent umbrella organisation, for nearly all activities by the private sector in the community.

Fortunately for the Government, BiC's membership list, which already reads like a Who's Who of British industry and commerce, and includes trades unions too, is growing. So is its spread of activities.

In most instances the "community" means the inner cities and the old industrial towns of the run-down regions of the UK—places long abandoned by many successful businesses and, despite some notable exceptions, the graveyard of those which did not survive well enough to get out.

The way the regeneration mechanism is supposed to work is this: Government, mainly through the urban programme of the Department of the Environment and, in some cases, urban development corporations, will find the resources to attack dereliction and decay, thus creating a better climate in the hope of encouraging business back into commercial no-go areas.

Much of the work will be done by unemployed people on Manpower Services Commission programmes. These will be managed—in increasing numbers of cases— by private sector civil engineering contractors, many of them BiC supporters, such as John Laing and MacAlpine.

At the same time the Department of Employment and the MSC will use their training schemes—together with programmes under the BiC umbrella—to equip the urban unemployed and school-leavers with fexible skills. This is to create a pool of usable labour for business if it moves back in.

Parallel to this will be a drive to encourage as much individual enterprise as possible with the urban communities themselves. Enterprise agencies—BiC's main building blocks, which are resourced by government, local authorities and private business—will play a key part.

What the Government is hoping for is urban investment in the average ratio of £4 from the private sector for every £1 of public money put in.

The principle behind this was proved in the US during the 1970s. The rationale in Britain was developed by Mr Michael Heseltine, then Environment Secretary, when seeking formulae for solving inner city problems after the Toxteth and Brixton riots of 1981.

Public funds are used to reduce the downside risks for the private sector if it invests in urban problem areas. This means the Government bearing the "environmental" costs of things like land assembly and clearance or getting the basic fabric of buildings into shape for development.

This transforms the financial equations: without government help the downside risk of ultimate failure—the maximum that might be lost—would be just too high when compared with possible returns.

Mr Heseltine admitted in a 1982 interview with the FT that the whole policy was a gamble dependant on the private sector and a fragile consensus between central and local government. In those days, too, the questions of training, a supportive climate for business and the "enterprise culture" had hardly been addressed.

With hindsight the idea looks to have been too young to fly at that stage. The basic elements with which to build the type of partnership envisaged were either not in place or still developing into forms that could be replicated universally.

Moreover, Mr Heseltine's first three successors as Environment Secretary—Mr Tom King, Mr Patrick Jenkin and Mr Kenneth Baker— were forced by political developments into high-profile conflict with several large, Labour urban local authorities. The fact that there were three—and then four—holders of the office in quick succession did not help either.

Partnership between government and local authorities faltered as consensus failed on public spending by town halls. Business confidence in the inner cities concerned suffered accordingly.

If it is so different now that the Government can make "partnership" the nation's official policy, why should this be so?

There are several reasons, the first of which is that the Government has won a thumping election victory. The town halls have lost their argument that they should be given the money to do the sort of municipalised regenerative job each sees fit. The government will put the money in, but on "partnership" terms it feels it can now dictate.

Mr Nicholas Ridley, the present Environment Secretary, is a fan of urban development corporations, which can by-pass feet-dragging local authorities very effectively, as they have proved in the London and Merseyside docklands.

Local authorities connected with the four new UDCs in Greater Manchester, Cleveland, Tyne and Wear and the West Midlands have grumbled, but have decided ultimately to feed these cuckoos in their nests through co-operation.

A second reason is that, thanks largely to BiC, there are examples of successful partnership all over Britain on which to build. While the Government and local authorities have been fighting, co-operation has been developing in parallel at local level.

Larger businesses have recognised that they have social responsibilities to the communities around them which it is actually in their own self-interest to fulfill. This is a change in attitude compared with 1980-81, when BiC was first being put together.

BiC grew out of the 1980 Anglo-American Conference on Community Involvement, which was chaired by Mr Tom King when local government Minister. A working group was formed under Sir Alastair Pilkington because of the glassmaker's pioneering work with the St Helens enterprise agency. BiC emerged from its deliberations.

But in the early days there were few voices in favour of what some dismissed as "industrial philanthropy." Most argued, as some still do, that their duty is to stay in business, make profits, provide employment and pay taxes. Looking after the community was Government's job.

The riots of 1981, and Mr Heseltine's dragooning of the most influential of Britain's industrial and commercial leaders on to a bus to see the wreckage of Liverpool for themselves, caused a watershed.

There are instances of chairmen and chief executives returning to their offices, calling in colleagues and opposite numbers, and starting the ball rolling immediately to set up enterprise agencies.

Another major instrument in the partnership formula was also established in a single, decisive push that day. Each business present was asked to lend the Government, free of charge, an able executive for a year.

Secondment, long practised by IBM and Marks & Spencer as a two-way benefit both to the community and management development, became instantly fashionable.

Tax incentives to encourage such means of community support have since added a commercial rationale. Enterprise agencies, and the main instrument of direct help—secondment of able staff—have grown massively in scale and effectiveness since then.

A major boost came with the agreement of Prince Charles to become BiC's president. Apart from the promotional effect of such Royal approval on BiC's membership roll, it has guaranteed increasing media attention over the past two years.

The climate is therefore very different now from five years ago—and the Government is clearly determined to build on that.

Indeed, it seems hard to remember when we did not have enterprise agencies, Project Fullemploy, the Action Resource Centre, Operation Livewire, Young Enterprise, the Ground work Trust and a host of other intiatives which now shelter under the BiC umbrella.

BiC has, in fact, come of age in only a little over five years. It has already proved at local levels that change in the community and lasting regeneration only happens, both for the good of all sides and the greatest numbers, if there is the involvement and commitment that follows from genuine partnership.

This is what the Government now wants to see writ large across the face of urban Britain. BiC's role will clearly be crucial.

Organisations promoting economic regeneration in local communities are being drawn together

Co-ordinating a sharper focus and stronger voice

TO GIVE more co-ordination to their efforts Business in the Community has drawn together several other organisations promoting economic regeneration in local communities.

Chief executives attend regular meetings convened by Business in the Community, at which common policy issues are reviewed.

There is agreement that this co-ordinated approach helps give the organisations a sharper focus and stronger voice, but there is also concern in some of the organisations that BiC should not become over-dominant. "BiC is good at national-level initiatives. We have the expertise when it comes to local-level delivery. So we have to keep our separate identities," said a senior official of one of the organisations.

The largest group of organisations associated with BiC is made up of the 250 local enterprise agencies which now exist throughout the country. BiC liaises with the Government on behalf of the individual agencies and helps them raise finance from industry. Training is provided for agency staff and BiC gives guidance to sponsoring companies on how to give maximum assistance to enterprise agencies and small businesses. BiC publishes the official directory of enterprise agencies as well as an enterprise agency newspaper, BiC Post.

It is less than 10 years since the first enterprise agency was formed. Today they are credited with helping to create 50,000 jobs a year—plus saving 25,000 jobs in existing businesses—at an average agency resource cost of only £300 per job. Some 3,000 companies provided support for enterprise agencies through financial assistance, secondment of staff and in other ways.

The other organsations in partnership with BiC in the task of aiding local economic development and job creation are detailed here.

ARC

ACTION RESOURCE CENTRE Formed 15 years ago, ARC focuses on two activities: acting as a broker between community projects seeking help and companies prepared to second trained staff to them, and initiating and managing major development projects which require the combined contributions of industry, statutory and voluntary agencies.

ARC has grown over its 15-year life into an organisation with more than 50 staff and secondees, headquarters in the City of London and 12 area offices in England, Wales and Northern Ireland.

Current ARC projects include the development of a transport museum in Birmingham in partnership with the City Council, local industry and the Manpower Services Commission's Community Programme; and Business Links, a scheme in Bristol under which more than 60 companies are providing office equipment to local community organisations.

In the North West, ARC is acting as agent for the voluntary sector on the Mersey Basin Campaign, a Government initiative to improve the basin which involves industry, statutory and voluntary organisations.

The Industrial Society

THE INDUSTRIAL SOCIETY With 400 employees throughout the UK, the Industrial Society is a large organisation dedicated to promoting the fullest involvement of people in their work. Its membership consists of more than 16,000 companies and 48 trade unions.

The society has six current main objectives: developing effective leadership; improving communication and consultation; encouraging the operation of productive management-union relations; establishing relevant conditions of employment; developing young people for work; and achieving greater recognition of the importance of the creation of prosperity through industry and commerce.

Several of the society's activities have taken it into the community. Notable among these is its Head Start in Business programme. This aims to help young people under the age of 30 become self-employed or set up their own business. Established on a pilot basis in 1981, it is now nationwide and supported by more than 1,000 companies.

Based on the belief that even the best of potential entrepreneurs will be unable to make progress without propert training, the scheme begins with an eight-week business skills course, after which the young person is supported by a local business person acting as "business mate."

The scheme began making important new inroads last year when the Industrial Society was contracted to run Head Start in six of the Government's inner city task force areas: North Kensington and North Peckham in London; Chapeltown, Leeds; Highfields, Leicester; St Pauls, Bristol; and North Central, Middlesbrough. By the autumn, the society expects that 4,500 inner city young people will have attended either a Head Start conference or course.

Another Industrial Society initiative is its programme of "Challenge of Enterprise" and "Challenge of Industry," intended to develop an enterprise culture among fifth and sixth-formers. The society also contributes to developing enterprise skills on the MSC's Community Programme and Youth Training Scheme.

PROJECT FULLEMPLOY

The project brings public and private bodies into partnership to help solve inner city employment problems, particularly as they relate to young people of minority ethnic origin. Some 80 per cent of young people on Fullemploy training courses are of Afro-Caribbean or Asian ethnic origin.

Fullemploy, formed 14 years ago, now has a staff of nearly 200—half of whom are themselves from ethnic minorities—and operating expenditure of £3.5m in 1987-88. About a quarter of this comes in donations from companies and charities, a further quarter from central and local government and the remainder from MSC fees.

It is now training more than 3,000 young people a year. Commercial skills training is its biggest activity, but enterprise training directed at business start-up is growing. Fullemploy is also working with educational institutions to provide young people on its courses with professional qualifications, and other schemes to increase the opportunities for ethnic minority groups to play a more equal part in society.

LIVEWIRE

LIVEWIRE. The scheme has grown from a pilot project in Strathclyde in 1982 into a national initiative aimed at encouraging 16-25 year-olds to create their own work. Livewire operates as an award scheme for young people who have ideas for businesses, co-operatives or community projects.

The project defines its objectives as: promoting an awareness of enterprise among young people; helping young people to create their own jobs, and expand existing projects; raising standards of those working in the youth enterprise field; and acting as a group marketing exercise for youth enterprise schemes and generating material.

YOUNG ENTERPRISE

YOUNG ENTERPRISE A national charity supported by industry and trusts, Young Enterprise gives young people the chance of learning about industry through the experience of running a scaled-down enterprise of their own. The scheme works with 15-19 year-olds through schools, colleges and community centres. There are currently 21,000 young people running 1,171 Young Enterprise companies in more than 1,500 schools. During the next five years it is planned to increase the coverage of the scheme to 60,000 young people a year.

Each Young Enterprise company consists of between 10 and 30 young people from a school or community centre. The youth company is given practical support by a real business in the locality. Young people involved in the project elect directors, select a product and start trading.

THE PRINCE'S YOUTH BUSINESS TRUST

PRINCE'S YOUTH BUSINESS TRUST The Fairbridge Youth Enterprise Scheme and the Youth Business Initiative merged last year to form the trust, the largest private sector initiative to help young people start their own business. The trust's activities span the provision of seedcorn finance, business advice, enterprise training and marketing support.

Among its specific schemes are bursaries of up to £1,000 for disadvantaged young people to start businesses, plus loans of up to £5,000 for start-up and expansion schemes. The trust's target is to provide 2,000 bursaries costing nearly £2m and a further £2m-worth of loans in 1987-88 to young people who show a reasonable likelihood of business success. A further target is to ensure than within three years every recipient of a grant or loan receives business training.

The trust says that the greatest weakness in the business proposals which it receives is probably in the area of marketing. It is developing a series of marketing initiatives in response to this, with the aim of giving all young people supported by the trust the opportunity of taking part in at least one group marketing activity a year.

GROUNDWORK · PARTNERSHIP FOR ACTION

GROUNDWORK This aptly-named organisation exists to attack the dereliction which the decline in traditional industries has caused to the environment in many parts of the country. Founded in the St Helens and Knowsley area in 1982, its original aim was to show that neglected land around urban areas could be reclaimed for recreation, food production and other useful purposes.

This led to the formation in 1985 of the Groundwork Foundation, a national partnership of sponsors, local Groundwork trusts and private and voluntary organisations. About 60 per cent of the foundation's budget comes from government sources, and 40 per cent from the private sector. The local trusts have set themselves objectives of clearing dereliction, finding productive uses for derelict land and similar activities.

INSTANT MUSCLE

INSTANT MUSCLE The project concentrates on helping disadvantaged young people aged 16-25 to create their own work. Most of its clients have no academic qualifications, many are from ethnic minorities and some are disabled.

Participants are helped to identify their own skills, develop business plans and start trading in their own businesses. Loans are provided in some cases so that young people can qualify for the Enterprise Allowance Scheme. The project is funded by the MSC, industry, trusts and individuals.

Alan Pike

Enterprise agencies

Need to develop and deliver

ENTERPRISE AGENCIES are Business in the Community's building blocks. There were 23 of them when BiC was formed five years ago but nearly 280 now, with BiC as the major national agent forcing this growth. In most of Britain, everyone lives within 30 miles of one.

The agencies started nearly 10 years ago, with several parallel strands leading to their independent emergence in various parts of the country.

The Community of St Helens Trust has been able to demonstrate that it was almost certainly the first and, thanks to wide media exposure, is the model very many others have copied.

So what are enterprise agencies and what do they do?

First and foremost, they provide a free, independent counselling service for small businesses. They give advice on start-ups—including "don't do it" if this is the best course—as well as advice on business expansion and many day-to-day matters.

Mr Joe Greenland, director of the Deptford Enterprise Agency

Many run small business clubs for their clients. These meet regularly to learn about management techniques, or new regulations, or to swap experiences. The agencies or the clubs often organise training courses or "meet the buyers" sessions to introduce small businesses to potential big business customers.

Generally, the agencies sit at the centre of a network and help it develop and grow, linking businesses with each other and with banks, accountants, solicitors and other advisers. They have been instrumental in helping create a better atmosphere so that small businesses can be taken seriously and flourish.

Nearly all are backed by a consortium of local private sector businesses and the local council. Money comes from government, via BiC, to help set up an agency and run it, though the money is conditional upon equal or greater sums from the private sector.

These sums may be in kind as well as cash and the single most important stimulus that helped secure them was the 1982 Finance Act, which enabled businesses to set off such contributions against tax.

Since these contributions include the cost of seconding staff to help operate the agencies, the sums involved can mount quickly into tens of thousands of pounds.

... The enterprise agency movement has provided probably the most widely used means of getting business involved in the community. The attraction of the agencies is their tangibility—the help they offer is easy to see and, in the case of some of the mature agencies, has already resulted in rapid expansion of the small business sector around them, creating thousands of jobs.

By June last year there were more than 4,150 sponsors from the private sector. Of these 314 were multiple sponsors, usually big companies which supported an average of 7.5 enterprise agencies each. There were 574 public sector sponsors, mainly local authorities.

Overall, there were 24 sponsors per agency—up four from 1985, when the figure was also up four on the corresponding one for 1984. This spreading of the load also means that involvement by business in the local community's economic development—and thus business's commitment to it—is increasing.

Despite their gambolling success, however, Mr Stephen O'Brien, BiC's chief executive, says that the agencies are still at an early stage in developing their potential.

He says: "The twin discoveries—that local partnerships between the business community and local government can actually work, and that the hand-holding of new small businesses can produce a dramatic harvest of new jobs—opens up a staggering potential for revitalising local economies."

Mr O'Brien believes that the service the agencies offer must now broaden to reflect more fully the needs of the communities they serve. Some are already set to operate as fully-fledged agencies for economic regeneration.

Others with fewer resources will continue to be little more than a source of counselling for would-be entrepreneurs. But whatever the scale of operation Mr O'Brien says the agency board — where many local business leaders usually sit — should encourage an entrepreneurial culture and be the very heart of local networks promoting it.

Thus the board should lead discussions in its community about training for small business, funding and housing it, and "extolling its virtues as part of our national salvation."

He believes that the agencies offer the chance for all parts of a community to formulate economic strategy at local level in true partnership with each other.

At the same time the increasing professionalisation of enterprise agency staff should be encouraged. "Make do and mend" approaches of relying on whomever might be available as a secondee will not suffice everywhere.

"The very best and most imaginative of our entrepreneurial managers should be recruited and paid appropriately for one of the most important tasks in our national structure," he says.

So far some very bright ideas have emerged and have been put into effect by some agencies already. St Helens, for example, developed a Business Expansion Scheme syndicate among local investors and has managed things well enough to be on its third fund.

In another case the agency is producing regular monthly radio programmes about small business to spread the word about training opportunities and anything of relevance. Others have developed a directory and used small business club contacts to develop inter-trading between members.

In other cases, agencies have spearheaded the sharing of resources and the networking of opportunities. Areas such as centralised company secretaryship and joint responses to Manpower Services Commission training schemes are particularly susceptible to this approach.

One agency manages a subsidiary to develop local purchasing and import substitution. Another has a computer matching service through which small businesses can identity opportunities for trading, common purchasing and mopping up each other's spare capacity.

In one of the most ambitious pieces of co-operative development, five agencies have set up a Linc—a local investment networking company—to marry potential investors with likely businesses.

The agencies—Aberdeen, London, Manchester, Medway and Northamptonshire—have been backed by a £10,000 grant from the Department of Employment and will use a common register of investors and a national bulletin of business investment opportunities to find possible matches.

The investors may be individuals, large companies or venture capital funds. The scheme is expected to develop into a national database linking 20 agencies in a nationwide network. Only the larger agencies are likely to have the resources to join in—and there is an annual subscription of £1,000 to belong—but they will probably act as focal points for smaller agencies in their areas to join in through them.

This in itself points to the way the enterprise agency movement may go from here, with a national network of super-agencies emerging, and smaller, less well-resourced local agencies linking in to them on a regional basis. Already nine smaller agencies in Kent have linked themselves like this to the Medway agency.

Overall, BiC has used the agencies as a major vehicle for fulfilling its own aim of getting more business involvement in the community. Nine out of every 10 agencies have been formed in BiC's five-year lifetime, and with BiC's direct support.

Mr O'Brien sees a new era dawning, with the agencies no longer new and experimental—and no longer able to rely on continued support merely as an act of faith. They have to develop and deliver. Their transition into increasingly sophisticated agents of change will be a crucial process in earning their keep and regenerating the local economies they serve.

Ian Hamilton Fazey

Managed workshops

Shortage is inhibiting new start-ups

FOR MOST of the post-war period small firms were in retreat. Large-scale city redevelopment programmes gave no thought to the needs of the smaller enterprise which was increasingly pushed into unsuitable back-street locations.

Over the past decade and a half, though, attitudes have been changing. The growing recognition that small firms have a valuable contribution to make to the creation of wealth and jobs has meant more thought has been given to their need for suitable accommodation.

Across the country disused factories, mills and offices have been converted into managed workshops where start-ups and small more-established companies can spend their early vulnerable years. Increasingly, purpose-built premises are being provided.

The aim of the managed workshop is to supply the sort of services that a larger company can organise for itself but which would involve the small businessman in a mass of time-consuming arrangements when he could be better employed getting on with expanding his business.

Typically the workshops will be run by a general manager —often seconded from a large company—who arranges secretarial services, telephone and telex facilities and for building maintenance and security. Many workshops have a canteen—often part of a catering business on-site which also serves outside customers—and a conference room.

Most of the 500 centres are full and many have waiting lists of small businesses

Most commercial property designed for the large business user is available only on lengthy lease. Small firms however cannot risk taking on such a long-term commitment. They may fold after a few months, leaving the owner with a sizeable financial penalty or the trouble of finding another tenant, or they may expand rapidly and require much larger premises.

The workshops usually offer premises on "easy-in, easy-out" terms, allowing their tenants to move out at one or three months' notice.

Putting a number of small firms together on the same site has the additional advantage that their owners can swap experiences and ideas. This reduces the loneliness that the small businessman often feels.

"There is a good, matey village atmosphere here," says Mr Bob Crawford, a former Shell manager, who now runs Broad Oak Enterprise Village just outside Sittingbourne in Kent.

Broad Oak, which is based on a former Shell research centre, recently opened its third phase, bringing the number of businesses on the site to 30 and the numbers employed to 100. Broad Oak actually has 40 units available but some of the companies it houses have taken on more than one unit as they have expanded.

The original run-down premises have been modernised and extended and now provide a home for a wide range of manufacturing and service companies. They include businesses which propogate rare alpine plants, recondition diesel engines, provide freight forwarding services and make precision tools. Others are engaged in analytical chemistry, microbiology and the design and manufacture of stained glass windows.

Several hundred miles north, on the eastern outskirts of Glasgow, the Clyde Workshops, formerly the British Steel Corporation's Clyde Ironworks, provide a home for 65 small businesses employing 300 people.

This is but a fraction of the 1,500 people who worked in the ironworks at its peak but it does allow BSC (Industry), the organisation set up by the steel corporation to help revive areas where it has closed large plants, to provide a stimulus to the local economy.

Back in the south, in London's Brixton, BAT Industries has backed an ambitious managed workshop project in the former Bon Marché department store building on the one of the main shopping streets.

The Brixton Enterprise Centre's location means much of the ground floor has been given over to small retail developments while the upper floors provide space for small workshops and offices. All of the businesses are fairly clean and quiet because of their proximity to other small firms in a multi-storey building. There are now about 60 small firms with a strong bias to arts and crafts, design and the media.

Many of the workshops, particularly those run by large companies such as Shell or by local authorities, subsidise the rents they charge.

The North London borough of Hackney, for example, charges the 17 tenants in its Enterprise Workshop just £12 a week when they start, rising to a maximum of £24 after 12 months — levels well below the commercial rate. Rents meet just £10,000 of the £87,000 annual cost of running the workshop.

Manor Gardens Enterprise Centre in Islington, North London, charges its 28 tenants just 70 per cent of the commercial rate when they start, rising to the full rate after three years. Companies like Shell and British Telecom, which runs Manor Gardens, also carry out extensive renovation work on the premises, for which they do not charge.

But even allowing for these concessions the sponsors of the workshops try not to become too far removed from commercial reality since this tends to lull their tenants into a false impression of their operating costs.

Some companies which leave subsidised workshop space in inner city areas where rates are high either immediately go bust or are forced to move out of the borough, warns Mr John Hyatt, London regional director for Business in the Community.

But commercial property companies do operate in the managed workshop field and they do manage to make profits. Local London Group, a quoted property developer, specialises in converting premises into small business centres.

It does this by taking on buildings with very short outstanding leases or which are in some other way unsuitable for conventional business use. It also limits its activities to the more prosperous areas of London such as Kensington, Fulham and Putney.

This leaves the more run-down inner city boroughs to the enlightened self-interest of large companies or to the local authority.

A recent development in the managed workshop field—and one which may provide a partial answer to the problem of making them pay—is the development of more broadly-based business centres.

They provide premises for large as well as small businesses, facilities for local authority services and provide training courses in various commercial skills. They reflect the desire of many local authorities to centralise the plethora of training, job-creation and small firm programmes which have been developed in recent years.

Stonehills in Gateshead, Tyne and Wear, is a broadly-based initiative aimed at boosting small firms, reviving a run-down area and at providing training courses in skills needed to revitalise the economy of the North-East.

Based in a former Co-operative Wholesale Society furniture factory, Stonehills provides 29 incubator units for small firms, eight factory units for larger companies, and 26,000 square feet of workshop space for training. It also provides warehouse space for the fire brigade and the police.

Tyne and Wear County Council, which funds the project, has linked with a number of training groups to provide specialised courses. They include the Micro-electronics Applications Research Institute which trains school-leavers to be software technicians; the North East Media Development Council, which provides training in video, cable, computer and videodisc technologies; and the Women's Employment Non-Traditional Skills Programme, which trains women in computer hardware and software skills and woodworking.

"We have a unique mix of activities in one place," says Mr Doug Stevenson, the general manager. "The small and big companies trade with each other; the trainees can find jobs; and the police presence is good security."

The small firms on the site have created just over 100 jobs while the rents from the larger organisations means the centre is financially viable.

There are now estimated to be about 500 managed workshops in Britain, though many more will be needed to keep up with demand. Most centres are full and many have waiting lists of small businessmen anxious to expand out of their garage or their bedroom.

A survey published last February by the Association of British Chambers of Commerce showed there were serious shortages of small workshops of up to 1,500 sq ft, not only in the prosperous south-east but in many areas of the north as well.

"Shortages of small workshops are once again inhibiting business start-ups," the association warned.

Charles Batchelor

BiC's targets

Hoping for more secondment

"MY PERSONAL ambition is for every properly organised company in this country to have a thought-out policy for its involvement in the community," said Mr Stephen O'Brien Chief Executive of Business in the Community.

It is a target that the energetic Mr O'Brien does not expect to achieve in the short-term. Nevertheless, it is an aspiration that he believes would make significant inroads into the problems of the inner cities and give credibility to claims that industry and commerce do care about the quality of life.

Mr O'Brien appears reasonably pleased about BiC's membership to date—about 250 private and public sector employers, including all levels of government, voluntary organisations and trade unions.

His organisation is also becoming more confident and adroit in seeking out potential new members and presenting projects in which business can lend a hand. BiC's role, said Mr O'Brien was to provide a framework for the involvement of commerce and industry in the community.

"Our main role," he said, "is that of an enabler. Our projects concern development. We seek to prove that something works—or does not—and then let others carry on."

Then there is the more general role of "consciousness raising" in the private sector: informing companies and their senior executives of the important role they could play in the community. Mr O'Brien himself makes three or four major speeches a week, seeking to establish a closer dialogue between all those involved in inner city regeneration.

He praises the communication work of Prince Charles, BiC's president, who, said Mr O'Brien, was superb at finding the common ground among very diverse people. "He has a tremendous catalytic effect," said Mr O'Brien.

In its early years BiC, in addition to its proselytising work, concentrated on building on the embryonic network of enterprise agencies throughout the country. BiC's role in the development of agencies has been to assist in raising finance from the private sector in agency funding and encouraging companies to provide secondees. Through BiC Post, a magazine distributed to all the agencies, it provides a forum of communication for all the agencies. In 1981 there were 22 agencies, today there are more than 250 distributed throughout the UK.

Mr O'Brien does not envisage a significant increase in their numbers but he does see their role developing out of just giving assistance and advice to small businesses.

The new expanding role of enterprise agencies, he said, included organising space for small businesses and the provision of education and training based on MSC funding and Enterprise Training.

Out of this work had grown the latest BiC involvement — the focusing of members' attention on particular areas of need. A "one town" partnership at Halifax in West Yorkshire was launched in 1987 and, on a more limited geographical scale, a series of Neighbourhood Economic Development Partnerships, which started with a project in Finsbury Park, north London. In both projects BiC sees itself as a catalyst, bringing together the different parties.

Mr O'Brien does not see it as BiC's role to develop a large bureaucracy and seek to expand rapidly the number of projects similar to Halifax. Indeed, BiC has only limited funds to take up such initiatives. "Our role," said Mr O'Brien "is to point out to Government such experiments, which if successful, can be adopted by other agencies nationally."

He cites the example of BiC's initiative in Tower Hamlets in London where it is trying to bring together the City and local residents. "That sort of initiative is something we could not do nationally but it could illustrate what can be done," said Mr O'Brien.

Such experiments, he said, were very much at the early stage and provided the private sector with a mechanism by which they could look very closely at what they could provide in terms of sponsorship and real investment. BiC also has its own consultancy, BiC Consultants, which advises companies on how best they could implement a community policy.

Mr O'Brien said he believed companies were not waiting on the sideline to see what incentives Government gave to projects in the inner city. Rather, he said, "the feeling is more that when Government does something it creates a further set of opportunities."

BiC draws a fairly firm line between acting as a catalyst and becoming embedded in the workings of a project. Rather, Mr O'Brien argued, BiC can do experimental work and point up the best practice that could be adopted by companies.

He gives the example of BiC research into why young blacks were not being hired by one company. BiC research showed that entry was determined by formal qualifications which young Afro-Caribbeans could not satisfy. BiC asked the company to make a few exceptions and then evaluate whether or not these young people were able to do the job and whether the formal requirement was the best criterion for employment.

Critics could argue that such a piecemeal approach does not remedy the situation that many young black people find themselves in. Mr O'Brien said: "We cannot sort this sort of issue out for the whole country. We aim to prove or otherwise that something can be done about a problem and then it is up to others to take that up. We are not the country's delivery system."

Mr Stephen O'Brien, chief executive, Business in the Community: a useful lesson from the US

Government, it could be argued, could evade taking up certain issues because organisations such as BiC take them up at a local level so enabling the Government to claim that something was being done. Priority hiring, for example, is an issue being taken up by BiC.

Here it attempts to persuade companies investing in the inner city to take on local people. "We would like the Government to take an initiative in this area," said Mr O'Brien, "but somehow they would go about it in a more bureaucratic way and perhaps achieve less."

He seeks to learn lessons from the US experience. US companies, he said, were increasingly perceiving community secondment as a merit on a curriculum vitae—an experience not seen by many UK companies as having great merit. Mr O'Brien said: "We are trying to pioneer secondment as a form of career development for graduates and those up to their mid-30s."

Modest ambitions they may be but ones which will be increasingly relevant if Government and the private sector are to prove themselves to be serious about the inner city and small business development.

Lisa Wood

BiC members and governing council representatives

(*Member of the Per Cent Club)

Action Resource Centre	Mr Claude Hankes-Drielsma
AES Data (UK)	
Align-Rite	Mr Jim McDonald
Allied Dunbar Assurance*	Sir Mark Weinberg
Allied Lyons	Mr John Mills
Alwen Hough Johnson (Holdings)	Mr Andrew Fox
Anglia Building Society	Mr Anthony Stoughton-Harris
Arthur Anderson & Co*	Mr Don Hanson
Arthur Young	Mr John Darby
ASDA-MFI	Mr Eric Bousfield
Associated British Ports Holdings	Sir Keith Stuart
Assn of British Chambers of Commerce	
Association of County Councils	Mr John Allison
Association of District Councils	Councillor John Morgan
Association of Metropolitan Authorities	Councillor Jack Layden
Automobile Association	Mr Olaf Lambert
Banca Commerciale Italiana	Mr Richard Barkley
Bank of England	Mr Douglas Dawkins
Bank Hapoalim	Mr Michael Siemon
Bank of Ireland	Mr Michael MacLoughlin
Bankers Trust Company	
Banque Belge	Mr Wallace Armstrong
Barclays Bank*	Mr John Quinton
Baring Brothers & Co*	Mr Francis Carnwath
Barratt Developments	Sir Lawrie Barratt
Bass	Sir Derek Palmar
BAT Industries	Mr Patrick Sheehy
BET*	Mr Nicholas Wills
Blue Circle Industries*	Sir John Milne
The Boots Company	Mr Robert Gunn
Bovis Construction	Mr Frank Lampl
B & Q (Retail)	
Bristol & West Building Society	Mr Andrew Breach
British Aerospace*	Sir Austin Pearce
British Coal (Enterprise)	Mr Merrick Spanton
British Home Stores	
British Land Company*	Mr John Ritblat
British Nuclear Fuels*	Mr Christopher Harding
British Petroleum Company	Sir Peter Walters
British Railways Board	Sir Robert Reid
British Steel Corporation (Industry)	Sir Charles Villiers
British Telecom*	Sir George Jefferson
British Waterways Board	Mr Brian Dice
Bunzl*	Mr Ernest Beaumont
Burton Group*	Sir Ralph Halpern
Cable & Wireless	Sir Eric Sharp
Cadbury Schweppes*	Sir Adrian Cadbury
CBI	Mr John Banham
Central Independent Television*	Sir Richard Bailey
Charterhouse	Mr Victor Blank
Chemical Bank	
Chloride Group	Mr Kent Price
Citibank*	Mr Charles Young
City Acre Property Investment Trust	Mr John Underwood
City University	Dr Raoul Franklin
C & J Clark	Mr Ralph Clark
Clerical Medical & General Life Ass Soc	Mr Andrew O'Leary
Clifford Chance	Mr John Scott
Coats Viyella*	Mr Alan Scott
Colonial Mutual Grop	Mr David Morris
Combined English Stores	Mr Murray Gordon
Commercial Union Assurance	
Consolidated Gold Fields*	Mr Humphrey Wood
Continental Illinois National Bank & Trust Company of Chicago	Mr Kenneth Loney
Control Data	Mr Terry Cave
Co-operative Bank	Mr Christopher Ruck
Coopers & Lybrand*	Mr Brandon Gough
Corporation of the City of London	Mr Geoffrey Rowley
Coutts & Co	Mr David Money-Coutts
Coverdale Organisation	Mr Chris Coverdale
Creditanstalt Bankverein	Mr Nigel Hudson
Credit Suisse First Boston	Mr Richard Bristow
C. T. Bowring	Mr Hamish Ritchie
Daiwi Europe	
Deloitte Haskins & Sells*	Mr John Bullock
Department of Employment	Sir Michael Quinlan
Department of the Environment	Sir Terry Heiser

Coming of age at five: BiC Chairman Lord Carr at last year's birthday celebrations

Department of Trade & Industry	Sir Brian Hayes
Deutsche Bank	Mr Manfred ten Brink
Development Commission	Lord Vinson
Dexion—Comino International	Mr Stephen Hinchliff
Dixon's Group*	Mr Mark Souhami
Dominion Insurance	
The Drapers' Company	Mr Robert Strick
Duchy of Cornwall	
Dun & Bradstreet	Mr Keith Williams
Dyke & Dryden	Mr Tony Wade
E. C. Harris & Partners	Mr Chris Vickers
E. D. & F. Man*	Mr Michael Stone
Electra Investment Trust	Mr Michael Stoddart
Equity & Law Life Assurance Society	Mr Christopher Brocksom
Ernst & Whinney	Mr Elwyn Elledge
Esso UK	Sir Archie Forster
European Business Network	Viscomte Etienne Davignon
Ferranti*	Mr Basil de Ferranti
Fishmongers' Company	Mr Eric Earl
Forbes Campbell (International)	Mr Amir Bhatia
Ford Motor Company	
Freemans	Mr Paddy Cribb
Freshfields	
Frizzell Group	Mr Colin Frizzell
Gallaher Tobacco (UK)	Mr Stuart Cameron
Geest Industries*	Mr Leonard Van Geest
General Electric Company	Lord Weinstock of Bowden
Gerrard & National	
Girobank*	Mr Malcolm Williamson
Glaxo Holdings*	Mr Paul Girolami
Globe Investment Trust	Mr David Hardy
Grand Metropolitan	Sir Stanley Grinstead
Grant Thornton	Mr Michael Lickiss
Greater London Enterprise Board	
Groundwork Foundation	Rt Hon Christopher Chataway

Guardian Royal Exchange Assurance*	Mr Michael Bewes
Guest Keen & Nettlefolds*	Sir Trevor Holdsworth
Guinness	Mr Shaun Dowling
Halifax Building Society	Mr Richard Hornby
Headway Technology Group	Mr Allen Coleman
H. J. Heinz & Company	Mr John Hinch
Herbert Smith & Co	Mr John F. Goble
Heron Corporation*	Mr Gerald Ronson
Hill Samuel & Company*	Mr Garry Watson
Home Office	Sir Brian Cubbon
Honeywell Control Systems	Dr James McGregor
IBM United Kingdom*	Sir Edwin Nixon
ICI	Mr Frank Whiteley
ICL	Mr Roger Wood
Inbucon	Mr Leonard Brooks
Industrial Society	
International City Holdings	Mr Robin Packshaw
International Thomson Organisation	Mr David Cole
Investors in Industry Group*	Viscount Caldecote
The Ismailia Business Information Centre	Mr Sadrudin Akberali
John Crowther*	Mr Michael Abrahams
John Laing*	Mr Martin Laing
Johnson Wax*	Mr Richard Posey
Jones Lang Wootton	Mr Bob Hinde
J. T. Group	Mr John Pontin
Kellogg Co of GB*	Mr Ross Buckland
King & Company	
Kleinwort Benson	Lord Limerick
Kodak	
Lancashire Enterprise Board	Mr Jim Mason
Legal & General Group*	Mr Joe Palmer
Levi Strauss	Mr Roy Evans
Lex Service Group*	Mr Trevor Chinn
Lloyds Bank*	Sir Jeremy Morse
Lloyds of London Group	Mr Peter Miller
London Electricity Board	Mr John Wilson
London Society of Chartered Accountants	Mr John Smith
Lowe Howard-Spink, Marschalk	Mr Tim Bell
3M United Kingdom	Mr Ronald Baukol
Manpower	Mr William Davidson
Manpower Services Commission	Sir Bryan Nicholson
Market Access International	Mr David Boddy
Marks & Spencer*	Lord Sieff of Brimpton
MEPC	Mr Christopher Benson
Mercantile House Holdings	Mr R. St John Barkshire
Mercers' Company	Mr Michael Wakefield
Merck Sharp & Dohme	
Metal Box	Dr Brian Smith
Meyer International	Mr Ron Groves
Midland Bank*	Sir Kit McMahon
Nabisco Group	Mr Basil Collins
National Bus Company	Mr Irwin Dalton
National Council for Voluntary Organisations	Venerable Alan Morgan
National Freight Consortium*	Sir Peter Thompson
National Westminster Bank*	Lord Boardman
Nationwide Building Society	Mr Leonard Williams
Nestle Company	
Neville Russell	Mr Alan W. Dyer
Newcastle Breweries*	
Newspace Risk Management Services	Mr Derek Bowden
Nomura International	
North British Industrial Association	Mr Frank Welsh
Northern Foods	Mr Nicholas Horsley
Norwich Union Insurance	Mr Victor Hughff
Occidental International Oil	Sir Ranulph Fiennes
Oppenheimer Nathan & Vandyk	Lord Nathan
Orion Royal Bank	Rt Hon Christopher Chataway
PA Management Consultants	Mr John Foden
Pannell Kerr Forster	Mr Claud Brown
Pearce Signs	Mr Brian Pearce
Pearl Assurance*	
Peat Marwick McLintock*	Mr Jim Butler
Pilkington Brothers*	Mr Antony Pilkington
Pinpoint Analysis	Mr Gurmukh Singh
Plessey Company	Sir John Clark
Port of London Authority	Sir Brian Kellett
Post Office	Sir Ronald Dearing
Price Waterhouse*	Mr Jeffery Bowman
Procter & Gamble	Mr Ray Cole

Project Fullemploy	
Provident Mutual Life Ass Assoc	
Provincial Group	Mr Charles Shakerley
The Prudential Corporation*	Lord Carr
Ranks Hovis McDougall*	Sir Peter Reynolds
Rank Xerox*	Mr Derek Hornby
Reed Executive*	Mr Alec Reed
Rexel	Mr David Thompson
Rexel Engineering	Mr Jim Cameron
Richard Saunders & Partners	Mr David Bell
Rio Tinto Zinc Corporation*	Sir Alistair Frame
Robson Rhodes	Mr Hugh Aldous
Rosehaugh Group	Mr Godfrey Bradman
Rover Group	Mr Mike Carver
Rowntree Mackintosh*	Mr Kenneth Dixon
Royal Bank of Canada	Mr Colin Mackay
Royal Bank of Scotland*	Sir Austin Pearce
Royal Insurance*	Sir John Cuckney
Saatchi & Saatchi Compton*	Mr Jeremy Sinclair
J. Sainsbury	
Samuel Montagu	Sir Michael Palliser
Save & Prosper Group*	Mr Cholmeley Messer
Scottish Office	Sir William Fraser
Sears	
Sedgwick Group	Mr Carel Mosselmans
S. G. Warburg/Warburg Securities	Sir David Scholey
Shearson Lehman International	Mr Aldersey Maynard-Taylor
Shell UK	Mr Robert Reid
Simons Construction	Mr Paul Hodgkinson
Slough Estates	Sir Nigel Mobbs
Smiths Industries*	Mr Roger Hurn
Sotheby's*	Mr Julian Thompson
Spicer & Pegler	
Standard Chartered Bank	
Stewart Wrightson*	Mr David Rowland
Stock Exchange	Sir Nicholas Goodison
Sun Life Assurance Society	Mr Richard Zamboni
Taylor Woodrow Group*	Mr Nat Fletcher
Tesco Stores*	Mr Ian MacLaurin
Thames Television	Mr Hugh Dundas
Thames Water Authority	Mr Roy Watts
KMG Thomson McLintock	Mr Alan McLintock
Thorn EMI	Sir Graham Wilkins
T. I. Group*	Mr Ronny Utiger
Trafalgar House	Sir Nigel Broackes
Trusthouse Forte	Lord Forte
TSB Group*	Sir John Read
TUC	Mr David Lea
TVS	Lord Boston of Faversham
Tyne Tees Television*	Sir Ralph Carr-Ellison
Unilever (UK)*	Mr Michael Heron
Union Discount Company of London	
United Biscuits (Holdings)*	Sir Hector Laing
Valin Pollen Int.	Mr Reg Valin
Vauxhall Motors	Mr John Bagshaw
Vickers*	
Wales Council for Voluntary Action	Lord Lisburne
Walker Greenbank	Sir Anthony Jolliffe
Wates Building Group	Mr Philip S. Lord
Wellcome*	
Welsh Office	Mr Richard Lloyd-Jones
West Yorkshire Enterprise Board	Mr Alan Pickering
Whitbread & Company*	Mr Sam Whitbread
W. H. Smith & Sons*	Mr Simon Hornby
Woolwich Equitable Building Society	Mr Alan Cumming
Young Enterprise	Sir David Checketts
Youth Business Initiative	Dr Alcon Copisarow
Youth Enterprise Scheme	The Hon Angus Ogilvy
	Lord Ezra

Additional members of the Per Cent Club

Allied Irish Banks; Amersham International; Associated British Foods; Associated Newspapers Holdings; BOC Group; Burmah Oil; Carlton Communications; Christian Salvesen; F. International Group; Harris Queensway; J. Henry Schroder Wagg & Co Ltd; Iceland Frozen Foods; Jaguar; Ladbroke Group; The Littlewoods Organisation; Merrill Lynch Europe Ltd; Mitsubishi Electric (UK) Ltd; Pentland Industries; Reed International; J. Rothschild Holdings; Sunley Holdings; Tarmac; Tate & Lyle; Tullis Russel & Co Ltd.

Business involvement

Stimulus comes from the top with a change in attitudes

Here, and over the next three pages, **Ian Hamilton Fazey** looks in detail at some of the projects Business in the Community's leading members are involved in. A full list of members is opposite

IS THE involvement of business in the community a late twentieth century version of noblesse oblige—or enlightened self-interest?

The answer in most cases is that it is probably both, but widening acceptance of that marks a change in business attitudes in only the last six years. Less than a decade ago the predominant attitude in most British business was that community problems were government's to solve. That is why people and businesses paid taxes.

In a recent book*, Sir Alastair Pilkington, founding chairman of BiC who became deputy chairman to Lord Carr when it merged with the CBI's special projects group, recalls the difficulties he faced as he tried to sell the idea when recession was biting in 1980-81.

He says: "In some of the early meetings I had at BiC I was really pushed back in my place by people saying their contribution was to run efficient companies and survive. They said that they provided jobs and that was their contribution to the community.

"I tried hard to convince them that it isn't quite as simple as that, because if the community in which you operate is not healthy it rebounds back on you."

The community rebounded in the Toxteth and Brixton riots of July 1981. In the political scrambling for solutions that followed, Mr Michael Heseltine, then Environment Secretary, took up the theme of business's role in the community and emphasised that it was in the enlightened self-interest of companies to become involved.

He had a handful of outstanding examples to hold up. There was Pilkington Brothers, which with the ~~local authority~~ had been a main supporter of Britain's pathfinder enterprise agency, the Community of St Helens Trust.

There was IBM, which had been running a programme of staff secondments to community projects since 1972. Secondment neither was then nor is now a dumping ground for tired executives: potential high flyers were the largest group picked for it.

Another prominent company was Marks & Spencer. It too had started using secondment for the twin purposes of getting good management into community projects while at the same time using the process as a tool for management development.

Enlightened self-interest was a major motivation. Pilkington needed to have a local means of job creation to hand because of the scale of redundancy likely to be caused by new technology. It recognised the need as early as 1974. The new trust, which started four years later under Mr Bill Humphrey, the inventor of its modus operandi, served everyone's purposes.

In the case of Marks & Spencer, it has a store in every major high street in Britain, many of them in a town or city centre surrounded by a creeping dereliction that cut them off from the affluent suburbs.

Whether such stores thrive depends on the general economic health of their whole catchment areas. Community problems are no good for high street trade. Who goes there to shop if malcontented youths are kicking in shop windows in running disorder?

The problem in 1981 was how to justify the cost of community involvement to the shareholders in the accounts. Was it charity or a legitimate business cost? The Government solved the problem in the 1982 Finance Act. Contributions in cash or kind to enterprise agencies could be offset against tax.

It was the green light for explosive growth of the local enterprise agency, the main tool of BiC. "In kind" meant the cost of secondments, as well as the provision of things like buildings, furniture and computers.

To exploit this tax break, "enterprise agency status" has been given by the Government to many other bodies: This is why the Government says there are more than 300 enterprise agencies while BiC's figures are usually between 40 and 50 lower.

The relevant status is now held by bodies such as managed workshops, the West Yorkshire Enterprise Board and a soft loans fund it started. One extra benefit of the device is that it enables WYEB to avoid tax on profits it ploughs back in to make its funds revolve.

A technology transfer consortium and network called Nimtech is similarly an enterprise agency, a status which helped it win backing from every major high technology company in the north-west.

While enterprise agencies of all kinds have been abounding, other forces have been at work. The decision of Prince Charles to become president of BiC, coupled with his high-profile visits to inner city communities with problems, helped create a more favourable climate.

The emphasis in small business creation has been balanced by other schemes, many aimed at young people. Projects such as Fullemploy and Trident, employment "compacts" between companies and local schools, are examples. Many non-subscribers to BiC itself, including the Financial Times, channel their support directly into projects like these.

Many more examples of community involvement are contained in the detailed examination on the next few pages of the roles in the community of many leading BiC subscribers. As the table of BiC's members on the page opposite shows, not all of them, or the complete range of programmes, could be covered, but the vast range of community activities now supported by business is well illustrated.

In most cases the stimulus for company involvement comes right from the top, from main boards and chairmen's offices. This was a key factor too with pioneers such as Pilkington, Marks & Spencer, IBM and some of the big banks. Community involvement is seen as part of corporate strategy and therefore has to be directed by people taking a longer view of corporate duty.

Mr Tony Cleaver, chief executive of IBM, says he is frequently told: "Well it's all very well for you—IBM can afford to do that sort of thing." He always responds that he is glad IBM can, but that the proper view should rather be: "We cannot afford not to do it."

What this says is that businesses cannot live in isolation from the communities around them any more than they can live in isolation from their markets.

The scale of activity seems to betoken a widening realisation that social duty is also in the interests of business, and that partnership is clearly achieving more than paying taxes and leaving the problems to government.

He says: "I believe business does have responsibilities to society. The assessment of what and how far-reaching those responsibilities may be can only come from a detailed breakdown of the elements in society and how one's business relates to them.

"I believe that such analysis shows just how far the discharge of these responsibilities is motivated by enlightened self-interest on the part of business—and that the management of this whole area should be handled just as professionally as any other part of the business."

**The Pathfinder: the origins of the enterprise agency in Britain*, by Ian Hamilton Fazey, is published by Financial Training at £7.95.*

Pilkington was one of Business in the Community's founders. The company has a long history of what some might scoffingly call "industrial philanthropy": it pioneered paid holidays and a locally-based welfare state. In the BTR takeover bid last year—known in the area as the battle of St Helens—Pilkington supporters took to the barricades in a bid to maintain the company's traditions. Mr Antony Pilkington, left, celebrates with his workers. Although long-term financial arguments eventually won the day, the company fought with the strength of the people around it and institutional shareholders knew that.

Per Cent Club

Pledging some of the profits

ON A DECEMBER evening just before Christmas, more than 100 business leaders gathered at 10 Downing Street for a reception addressed by the Prince of Wales and the Prime Minister.

By the end of the evening the Per Cent Club had been formed. It initially had 73 members, but it is now around 100 and the aim is to double the original 73 in the coming year.

Rules for membership of the Per Cent Club are simple. It consists of companies which agree to give half a per cent of their UK pre-tax profits—or, if they prefer, 1 per cent of their gross dividends—to the community each year.

Companies joining the club have a wide range of choice over the form of community contribution which they make. They retain the decision themselves—the club does not collect contributions into a central fund.

Cash donations to community activities, secondment of staff, donations of equipment or premises, art, music and educational sponshorship or charitable activities all qualify as community contributions under the club's rules. Alternatively, a company might choose to contribute to job-creation schemes or inner-city initiatives.

Charitable donations by Britain's leading 200 companies produce around £35m per year. If all these companies joined the Per Cent Club and adopted its commitment to giving half a per cent of pre-tax profits, this would rise to £150m. The club hopes to raise the level of contributions to 1 per cent of pre-tax profits, producing £300m.

"Contributions on this scale could have an enormous beneficial impact of the community," says Business in the Community, which provides the administration for the club. "It is hoped that the Per Cent Club will act as an example and an encouragement not only to other leading companies, but also to other businesses throughout the country."

The organisers of the Per Cent Club say that initially a number of companies with active records for charitable or community work questioned the case for linking their contributions to a specific level of profits. In reply, club supporters argue that by giving a public commitment to donating an agreed percentage to the community companies do two things—act as an example and encouragement to other companies to do the same, and help improve overall attitudes towards business and industry within local communities.

Under tax changes announced last year, companies can obtain tax relief on charity contributions of up to 3 per cent of dividend payments. Charitable contributions have to be declared under the Companies Act, and the Per Cent Club organisers hope that member companies will in future publicise their entire community contributions, and their club membership, in annual reports.

Alan Pike

Company involvement in projects

TI Group

TI Group's involvement in the community comes under Mr G. R. Mackenzie, a main board director, but another measure of commitment is the full-time secondment to BiC itself of Mr Tony Weddle as regional director for the East Midlands.

TI's origins are those of a Midlands manufacturer and because of its historical involvement in the area it is giving substantial support to Sandwell Enterprise, the enterprise agency for the Black Country borough of Sandwell.

Mr Mackenzie chairs the board and the agency's director is Mr Tony Smith of TI Tube Products, who is on a 30-month full-time secondment. Sandwell Enterprise has just launched a small loans fund. TI made the initial contribution, encouraging other private sector donations and support from the local authority.

There is also a BiC initiative on community involvement in the Birmingham Employers Forum, with TI making a substantial donation to a consultancy study which the Forum is conducting.

Glaxo

Glaxo has involved itself in the three main areas around its manufacturing bases in West London, on Merseyside and in the North-east.

Mr Alan Boyd, a senior manager, was seconded for a year to set up the highly successful, four-day London Industry Matters Exhibition in March, which Glaxo also helped finance. Mr Boyd, a former site manager at Glaxo's Greenford plant, has since been on a special training course in charity fund raising and is now on a further secondment with Age Concern in Ealing.

Dr Bill Proudlock, Greenford's personnel manager, is chairman of Ealing Enterprise Agency, which is supported by Glaxo with £2,000 a year.

In the North, Mr Ron Copeland, the former chief engineer at the Glaxo Speke factory, is on a two-year secondment to Merseyside Sports Council running an outdoor activities initiative. He is also works an industrial consultant to the Wirral Schools Technology Centre, which works in the schools on improving the understanding of industry.

Two more full-time secondments are also on the way. A senior manager from Allen and Hanburys is to go to a community project in Scotland, the venture still to be chosen, while another senior person is to work for the Chester le Street and City of Durham Enterprise Agency.

Meanwhile, Darlington and South West Durham Venture is being supported with £2,000 a year and surplus factory furniture and equipment has been given to Weardale Enterprise to enable it to set up and equip small factory units.

Northern Foods

The Hull-based conglomerate of dairy and food interests, is targeting its community in Belfast, Liverpool, Middlesbrough, Manchester and Humberside itself.

In Northern Ireland, where the company trades under the Dale Farm Dairies banner, it is to help fund a sheltered workshop and new business initiatives centre in central Belfast. It also intends to support Bryson House, which offers support for families under stress, handicapped people and in community health projects.

The salary of the general manager of Vauxhall Garden Market will be the most tangible form of support on offer in Liverpool. The project is a 3.5 acre market garden in the inner city, the concept of which has emerged from the work of the Eldonian Community Association.

There will also be technical advice and other support from Northern Foods' salads and vegetables company.

Help can also be offered in very simple terms, such as painting the Cleveland Business Centre in Middlesbrough. Northern Foods is giving £15,000 through Turners Decorating, either in cash or, more likely, in the form of paint and manpower.

In Manchester, talks have taken place with Community Industry, a charity, about providing help with training courses. There have also been discussions with Project Fullemploy about training, with similar support also likely in Sheffield.

Nearer headquarters, the company intends to second someone to one of the local enterprise agencies, to which surplus furniture and computers have already been supplied. In addition it is hoping to be part of a local compact, where companies on Humberside commit themselves to recruit local school leavers provided they achieve certain educational and attendance standards.

Camden Garden Centre, North London

Alan Harper

Unilever

Unilever is supporting 19 different enterprise agencies in the areas where it has its factories. Ten of these are in the South-East, two in East Anglia, one each in Hereford and Gloucester and one each in Rotherham and Sheffield. In many cases the company is one among several sponsors.

It cites its work on Merseyside to illustrate what companies can do at a detailed level. There it is a co-sponsor of Knowsley Enterprise Agency, where the company has a large Birds Eye factory. But it is the Wirral, near where Unilever started more than a century ago that efforts are most intense.

In Birkenhead, Unilever led the way with one of the earliest enterprise agencies, In Business, which it set up in 1980 with Wirral Borough Council and the local chamber of commerce.

It was housed in a redundant school near the town's main shopping centre and a novel feature for the time was to use the school classrooms to provide low-cost, easy-in easy-out, serviced accommodation to help small businesses get established.

Cavendish Enterprise Agency, also in Birkenhead, works closely with In Business. It started life combining a youth training scheme with managed workshops for small business—the trainees providing services such as typing, bookkeeping, switchboard building work and the restaurant.

Unilever believes that the enterprise culture has rubbed off on many of the trainees, 70 per cent of whom have been finding permanent jobs after leaving. The two agencies have now started running enterprise training courses and others which encourage local people to relearn or top-up their skills.

Midland Bank

Midland's support for the enterprise agency movement has been strong, starting with the first secondee from a clearer to an enterprise agency—Mr Phil Lees to the Community of St Helens Trust in 1978.

Many others followed and the bank's level of secondments to enterprise agencies or for related or similar activities now runs at 29 in any one year. In addition much managerial time is given for financial counselling at many agencies and bank managers serve on the boards of several.

Midland has also given cash donations now to no fewer than 135 separate agencies.

On its home ground, where it started 150 years ago, Midland has given £250,000 of sponsorship to the City of Birmingham Business Development Team, an advisory body set up under the city's Economic Development Unit. Two members of the three-man team, which helps established businesses sort out problems, are from the Midland.

Another £250,000 has also gone into the Prince of Wales' Community Venture in Birmingham. This is aimed at fostering a sense of community responsibility among young people and to develop their personal, social and communicational skills.

As well as the cash, Midland is likely to second several young career bankers as team leaders.

Burton Group

The Flagship of the Burton Group's efforts in the community is Design Works, an imaginative project to create a centre of excellence for design and marketing in the north of England. The approach is concentrated and novel, and should be the forerunner for similar schemes.

The company had a redundant 72,000 sq ft warehouse in Felling, Tyneside. It asked Project North East, the Newcastle-based enterprise agency to come up with ideas. The agency pointed to a big gap in the local economic/industrial infrastructure—a lack of design and marketing facilities.

It also found that Newcastle Polytechnic and other local educational institutions were producing many promising designers, who then left the region because of lack of opportunity. The agency suggested that the warehouse be used to provide a means of keeping people in the region by stimulating opportunities for them.

Sir Ralph Halpern, Burtons' chairman and a member of BiC's governing council, accepted the idea that the warehouse should be transformed into Design Works. It will provide workspace and back-up business advisory services, group marketing and brokerage on behalf of tenants to potential clients, training in design and marketing, and exhibition facilities.

The company's assistance will be direct and large. The premises themselves, worth £110,000, are being given to a charitable foundation, which will run Design Works.

Mr Bob Walmsley, a senior Burtons manager in his early 50s, has been seconded as general manager, with a younger secondee, Mr Jeremy Burton, to assist him. Sir Ralph sees Mr Walmsley pioneering the concept of a second career in the Burton Group, where senior managers will leave mainstream corporate activities to take up a new career for 8-10 years before retirement.

Mr Walmsley will be able to call in specific help from Burtons in areas such as marketing, financial control, and legal matters. Surplus furniture and office equipment will also go into Design Works.

Burtons has also persuaded its suppliers to join in, contributing free or at cost the same materials they are providing for the refurbishment of Debenhams. Northern Provincial Glass and Pearce Signs committed themselves to the project early on.

Fitch and Co, which has been handling the redesign of Debenhams, has also given its services free. Fitch will produce Design Works' corporate image, designing its interiors and things like its logo.

In addition to this, Sir Ralph and Burtons have been using their personal and commercial networks. Sir Phil Harris of Harris-Queensway has pledged £100,000-worth of carpeting.

Burtons is also to provide, rent-free, a surplus shop in central Newcastle to act as a retail outlet. Several Burton Group companies have also pledged seconds or other stock to sell there. Staff will be supervised by a local store manager. About £100,000 is expected to be raised for Design Works by the shop.

Even the conversion of the warehouse will be linked to the community, MacAlpine managing an MSC-funded community programme team to do the work. Burton will provide office accommodation.

Once Design Works is operational Dorothy Perkins buyers have pledged to visit twice a year to review tenants' work. Apart from placing orders—100 concessions have been offered in Dorothy Perkins shops—the buyers will advise on improving tenants' work. Other Burton Group buyers are likely to copy.

Burton Group says: "Neither we nor Protect North East believe that Design Works is a model of perfect corporate community involvement. Nevertheless it does raise several interesting new approaches, in particular how companies can bring their community involvement programmes more into their mainstream activities.

GKN

GKN has seconded Mr David Wright to head BiC's work in the West Midlands and operates through BiC to support enterprise agencies in Birmingham, Wolverhamton, Dudley and Sandwell.

Mr Nigel Cook is seconded to one of them, Birmingham Venture, and has special responsibility for helping the black community to set up and develop businesses.

GKN also supports enterprise agencies and community activities in places such as Cardiff, Ellesmere Port and Leeds, where it has local factories or substantial connections. The company also has strong links with Project Fullemploy. Mr Ray Beck, a full-time secondee, is still working with the body after retiring from GKN.

At the strategic level, chairman, Sir Trevor Holdsworth, heads the forum of major employers and leaders of local government, universities and central government in Birmingham which is concerned with strategy, training, economic development and the city's image.

Allied Lyons

Allied Lyons describes itself as "a relative and modest newcomer" to the field of community affairs, but responded quickly when Prince Charles appealed for more support for North-east enterprise agencies at BiC's annual meeting at Newcastle last December.

The problem there is the smaller number of national

Continued on Page 7

Company involvement in projects

Continued from page 6

companies which are headquartered in the area. These will almost always support initiatives local to them. Allied Lyons immediately agreed to support six North-east agencies and has now promised help to a seventh.

In London the company is actively supporting the two Afro-Caribbean agencies in Finsbury Park and Deptford but says that a major problem in both places is a shortage of sponsors. It numbers Finsbury Park's sponsors at nine, compared with a national average of 24, and is hoping to persuade other businesses to join in.

Rowntree Mackintosh

Apart from its involvement in the Calderdale one-town partnership Rowntree Mackintosh's long tradition of support for community causes saw it active in the UK, the US, Canada, France, Germany and South Africa, where it also operates.

During 1986 the company spent 1 per cent of pre-tax profits on community activities. This represented £864,000, an increase of £239,000 on the previous year. Charities got the biggest share, with £372,000 direct and £172,000 through charity-linked product promotions. YTS, Industry Year and other schemes received £84,000.

Staff secondments, however, were worth £236,000. One secondee is a local director of a Project Trident scheme, which arranges work experience and community activities for young people in their final years at school.

Other projects supported include a Glasgow scheme to train young people from the inner city in the skills needed to get a job, sponsorship of three Scottish enterprise agencies and the financing for two years of the salary of the executive officer of Enterprise West Cumbria, an industrial development agency.

A new scheme this year has provided grants for community service by employees. Any employee active in a voluntary organisation in their spare time can apply and more than 30 have done so successfully, amounts ranging up to £1,000. In one case the money went towards a single-parent family group, in another to a bath unit in a new hospice.

BAT Industries

In 1981 BAT Industries became concerned about the effect of recession on the inner cities of places where it was already a major employer. It decided to act through specific projects aimed at encouraging the growth of small businesses.

Mr Alleyne Reynolds, a senior manager who eventually moved on to the London Enterprise Agency, was put in charge, with a brief direct from the group's chief executive.

Following the example of BSC Industry's pioneering experiment in managed workshops on the Clyde, BAT took a 99-year lease on a dilapidated, 60,000 sq ft warehouse in Liverpool's south docks in 1981 and carried out a £1.4m conversion.

Occupancy rates have ranged between 65 and 75 per cent and although it was hoped initially that rents would cover running costs, they have not done so. BAT has made up the difference, estimated at £46,000 in 1986.

However, about 250 people are employed at the workshops and of the 137 businesses that left in the first four years, more than three-quarters did so as viable concerns, mainly to expand into bigger premises.

Also launched in 1981, the Southampton Enterprise Agency was one of the early ones, and began with a guarantee from BAT of full funding for the first two years. This enabled a "supporters club" to be developed in parallel, whose members eventually became contributors to expenses.

BAT's support has continued through meeting the secondment costs of two staff from BATCo, its tobacco group. Wiggins Teape, another BAT company, has provided a third secondee, with NatWest and Barclays providing one each on a consecutive two-year basis from 1983.

In its first five years the agency handled 5,569 inquiries and conducted 2,000 counselling sessions, leading to 572 business start-ups or expansions. There have been 24 known failures, a rate of only 4 per cent.

These were learning experiences which BAT Industries has since put to impressive use in London by buying the derelict Bon Marché store in Brixton. The building was completely redesigned at a cost of £3m, of which £200,000 came from Lambeth Borough Council.

"The Bon," as it is known in Brixton, was opened in 1984 by a local hero, Mr Frank Bruno, the heavyweight boxing champion, and officially named the Brixton Enterprise Centre. It contains 72 workshops, 60 offices and 20 shops, the bulk of which are let.

It also houses the South London Business Initiative, a new enterprise agency, and a Project Fullemploy training scheme. BAT has guaranteed financial backing while the centre fulfils a clear social need, which probably means for ever.

Mr Brian Hutchinson, its first director and general manager, played a key role in getting the centre going and building links to the left-wing local authority. Significantly, perhaps, he is now working for the Government and is likely to play an important role in inner city initiatives.

Wellcome Foundation

Wellcome guaranteed a £100,000 bank loan that helped the Camden Garden Centre get started in 1983 in a partnership between the company, Camden Council and existing community businesses. It flourishes today as a self-financing business providing long-term local jobs.

It also provides training and development for a multi-racial workforce, with courses designed to encourage trainees to move on elsewhere, thus creating places for a new intake. In addition to these things, however, it has given Camden an attractive local amenity.

Wellcome is also interested in increasing the role of enterprise agencies beyond that of a counselling service and has provided the financial backing for SCOPE—South Cheshire Opportunity for Private Enterprise—to create a focus for young people hoping to develop their own businesses.

The Youth Enterprise Centre, based at Crewe, will create a one-stop shop for Youth Enterprise. It will house the Shell Livewire administrator for the area and act as the South Cheshire base for other youth initiatives. It will also help SCOPE in its enterprise in the schools programme.

There has also been an emphasis on youth in Wellcome's support for initiatives in Deptford. As a sponsor both of the Deptford Enterprise Agency and Project Fullemploy in the area it has played a key role in the two organisations sharing managed workshops, with Fullemploy providing training for agency clients.

The company also provided the private sector money for the project, which is largely funded by Lewisham Borough Council and the Department of the Environment.

GEC

At any one time there are 2,500 young people on YTS courses at GEC's training workshops in Trafford Park, Manchester. The skills vary from electronics and mechanics to catering and hairdressing.

A large thrust of the group's national effort is directed at education liaison, with all parts of the group encouraged to build links to local schools, colleges and universities.

The two principal messages are to get over the importance of manufacturing industry as a generator of wealth and to explain employment and training opportunities for young people.

Several teachers have been seconded to GEC businesses to get first-hand experience of industrial life and others are employed on special projects during vacations. Hundreds of student teachers attend short industrial appreciation courses run by GEC staff.

The company also supports about 100 charities, paying special attention to helping handicapped people. It also supports work with disadvantaged people. Examples include counselling the unemployed, providing outwork to prisons, sheltered placements, work experience for young offenders, and camps for deprived children.

John Laing

Last month John Laing became the first private sector company to take up a national agency under the Government's Community Programme scheme. Under this the company will manage CP activities—many concerned with reclaiming dereliction of land and buildings—with local unemployed people offered work on the schemes.

Laing hopes to have 1,000 people on such schemes within a year and also to link it into several projects put forward by UK 2000, the community refurbishment initiative chaired by Mr Richard Branson.

The company is also an active supporter of Propect Fullemploy, the Action Resource Centre, Young Enterprise (providing premises and advisers), Operation Groundwork, the World Wildlife Fund and the British Schools Exploring Society.

Three bursaries have been provided to enable young people in the North to set up on their own under the auspices of the Youth Business Initiative. Laing also has a representative on the board of the London Enterprise Agency and expects to use this link to become more involved with inner city development.

In one unusual form of involvement, the company has for three years sponsored the John Laing (Hendon) Band, which is used in a variety of community-related activities.

Shell

Shell is one of the leaders in the field and has been active since 1978, setting up, first, a small business unit and now operating its community activities through the Shell Enterprise Unit.

From the outset the units have tried to ensure that any funds made available by Shell UK's main board are used as catalysts for bigger things.

A founder member of LENTA, the London Enterprise Agency, Shell has seconded staff to it on a regular basis. Experience has taught the company that there are several key areas where it can be most effective.

These are running training courses for would-be entrepreneurs, providing counselling and advice—particularly on technical problems, finance, premises and marketing—and developing small industrial and commercial units for small businesses.

The company is also active in ENTEP, a trust for Ellesmere Port and Neston, where Shell's massive Stanlow refinery is prominent on the Mersey skyline. ENTEP is a cluster of 55 workshops and business units on the site of a disused bitumen plant. The scheme has led to 250 new jobs.

Shell managers have also been seconded to various enterprise agencies, such as those at Basildon and Thurrock. Macclesfield Business Venture was founded by one of them and another Shell secondee now runs it, taking over from an ICI Pharmaceuticals manager who built it up meanwhile.

The company also continues to support the Somerset Small Industries Group—which started as a parallel, independently thought-out venture at about the same time as the Community of St Helens Trust. The present contribution is a car for the development officer.

Shell works closely too with Durham University Business School's small business centre, supporting a wide variety of projects. These include a scheme to get many young graduates into self-employment and small business.

It also has managers on secondment to the Welsh Development Agency and the Council for Small Industries in Rural Areas.

The past two years have seen two examples of a new type of venture, Broad Oak Enterprise Village at Sittingbourne, Kent, and Carrington Business Park near Manchester. These differ from Shell's earlier initiative in small business property in that they are wholly funded by the company, rather than partnerships with others.

Broad Oak, the pathfinder, involved the £400,000 conversion of former Shell laboratory buildings into an "enterprise village." The lessons learned were quickly transferred to a redundant cluster of buildings on 17 acres within the 300-acre Carrington plant of Shell Chemicals.

This conversion is costing £1.3m, but there has already been a spin-off. Apart from the 55 companies that have quickly established themselves in the first phase of the project, the "not for profit" nature of the initiative has been instrumental in attracting to an adjacent site the possibility of a major project capable of generating 6,000 new jobs.

Shell's support for entrepreneurs is perhaps best known, however, through Livewire, which is aimed at encouraging young people between 16 and 25 to create their own jobs. This is a competition which now ends in a national final.

All entrants get help, whether "winners" or not, through a 500-strong network of Shell employees, who operate a support scheme offering advice on a one-to-one basis.

After a pilot project in Strathclyde in 1982 Livewire was extended throughout Scotland and into Northern Ireland the following year, followed by England and Wales in 1984. By the time entries closed last January, about 9,000 young people had been involved.

Shell has now guaranteed funds for Livewire until 1991. Pilot schemes have now been launched in the Republic of Ireland and in Australia.

United Biscuits

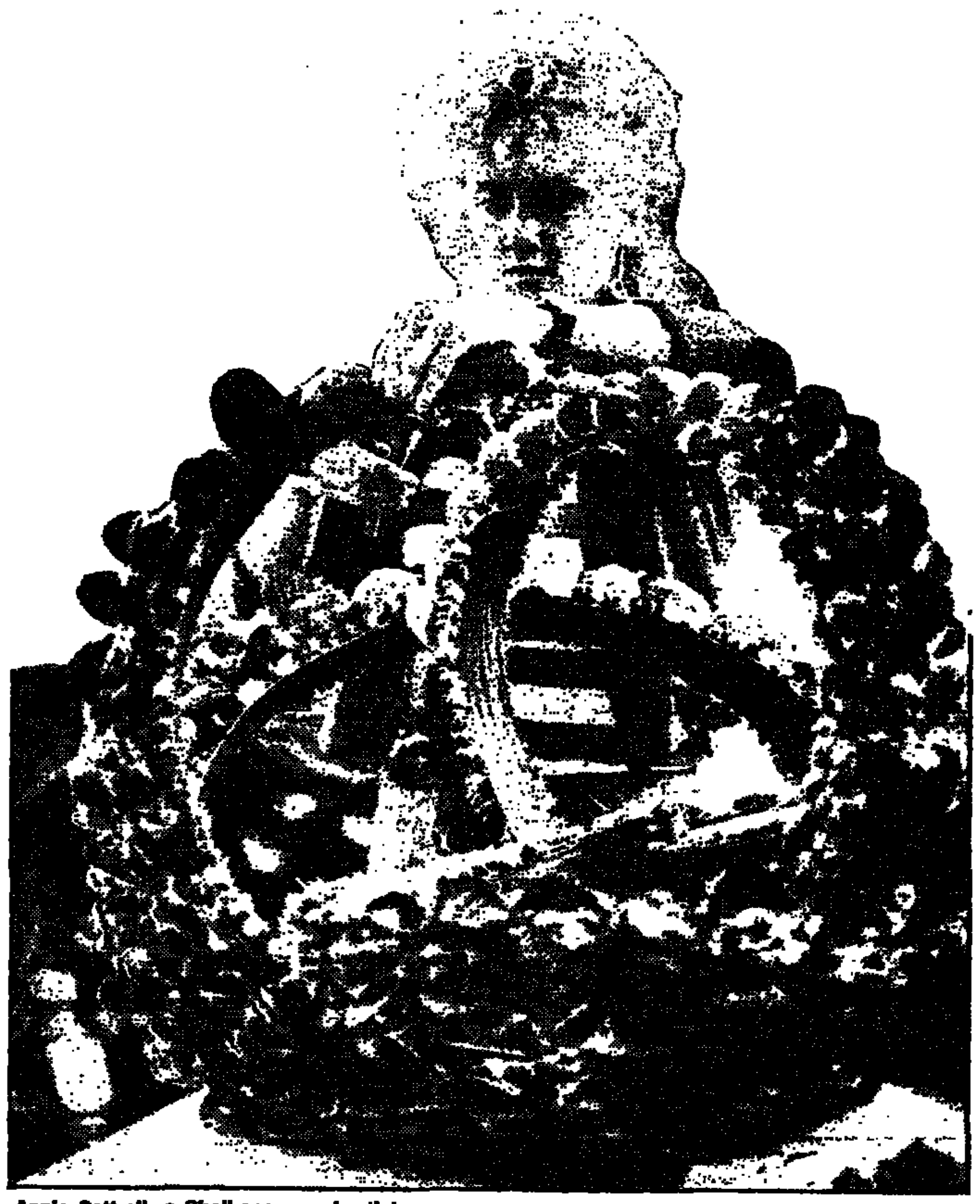
The chairman, Sir Hector Laing, chairs Scottish Business in the Community and, not surprisingly, his company is a leading supporter of community initiatives, giving 1 per cent of pre-tax profits to them as a matter of policy.

Its secondment policy is also clearly defined. It offers full-time secondments in the ratio of one per 2,000 employees, which means that the present number is 15, many of them enterprise agents agencies in Scotland and England.

Secondees from United Biscuits run Business in Liverpool, Carlisle's Business Initiatives and Brent Business Venture in North London. Also in London, Mr David Parker has been lent to LENTA as marketing counsellor, handling more than 800 inquiries in 12 months.

Brent is also where Mr Reg Pudney has been able to put to work 22 years experience as a biscuit salesman. By determined canvassing he persuaded 218 companies to offer 400 work experience places to young

Continued on page 8



Annie Cattrell: a Shell-sponsored artist

Company involvement in projects

Continued from page 7

people in their last years at school.

United Biscuits is also active in other projects providing links to schools, colleges and universities which help young people understand the importance of industry.

It also supports several training centres, as well as inner city projects and community teams which help disadvantaged people, particularly the young, members of ethnic minorities and the disabled.

Esso

Esso UK has developed useful criteria for deciding what to support among the plethora of requests it gets for help. It restricts its aid to the UK and help is given directly, not to intermediaries.

It tries to ensure that money or help goes to people rather than the support of buildings or endowments. Also it regards it as important to support projects that are run efficiently and are not dependent on funding from Esso.

Recognising the increasing importance of job creation and inner city improvement, help has been offered to a wide range of projects, either as money or through secondment. Pump-priming is a common reason for help, with support committed for at least a medium term to give things a chance to establish themselves.

Secondments include a two-year one of a manager to The Groundwork Trust, which helps bring about environmental improvements. Pump-priming includes developing a database offering essential start-up information for any business. The database is being compiled at Project North East, Newcastle's enterpise agency, but has the potential for nationwide application.

Stewart Wrightson

Stewart Wrightson is one of the Lloyd's major broking houses and has had a longstanding interest in widening its recruitment net.

Experience has reinforced this interest and the company is heavily involved in projects, particularly in its "local" London community of Tower Hamlets, which help disadvantaged people get jobs in the City.

The company has supported Project Fullemploy since its foundation, with Mr David Rowland, its chairman, serving on the Fullemploy board. It has also helped directly with money and indirectly with conference space in its City headquarters and in assisting Fullemploy to computerise its employer records. It has also given pensions advice.

Recruitment initiatives include using a fellowship scheme and a special "access plus" programme to take on three undergraduates from ethnic minority backgrounds in working placements in London.

Another—and bigger—scheme providing wider access to City jobs is the East London Compact, which involves a group of employers trying to improve the job prospects of school-leavers in Tower Hamlets and Hackney. Compacts work by employers guaranteeing jobs if certain standards are met by schools.

Stewart Wrightson is also working hard at lowering the barriers between the City and the East End through mutual visits to and from community leaders, and conferences for careers officers. It is also part of the London Education Business Partnership, which links the London Enterprise Agency with the Inner London Education Authority.

Bon Marché in Brixton—now the Brixton Enterprise Centre—backed by BAT

IBM

One of the first in the field, along with Marks & Spencer. It has been running a substantial staff secondment programme for nearly 15 years—long before businesses could count secondment costs as "help in kind" and set them against tax.

About 150 employees have been lent to a wide range of organisations, the majority charities or non-profit-making bodies, although about 20 per cent of secondees have gone to professional institutions and Government departments.

This year's 26 secondees include senior managers who are occupying the posts of chief scientific adviser in the Cabinet Office, chief executive of the National Health Service and principal officer in the Prime Minister's efficiency unit.

But seven are directly involved in job creation, mainly running or operating in enterprise agencies. Another six are in "education for life" projects such as technological education, Young Enterprise and adventure training.

A key secondment is that of Mr John Southerst, whose job is to manage the construction and commissioning of the Cleveland Business Centre. This is planned as a UK model for small business, innovation and enterprise facilities. It is costing £2.2m of public and private sector money and will be a purpose-built 56,000 sq ft building of small offices and flexible workspaces.

IBM also has a programme of inward secondments from Government and education. This started tentatively in 1980 and rose to five secondees in 1984. Since then the programme has been managed systematically and developed to 20 new secondees in 1986. There are 22 in IBM at present.

IBM is also active in Project Fullemploy, sports and arts sponsorship, conservation of wildlife, campaigns to encourage better understanding of industry and various projects connected with sport for the disabled.

It regards itself as "a good corporate citizen" and few would disagree—it proved the point massively in 1986, when the cost of all its activities amounted to £3.7m.

Ernst and Whinney

Secondment of accountants to enterprise agencies has been a key element of its community support, with emphasis placed on transferring some of the firm's own skills into the agencies.

Ernst and Whinney has also lent staff directly to small businesses selected by BiC. The criteria here are special circumstances where the business can benefit unusually from a short term secondment.

An example was a company making high quality toys which approached Brent Business Ventures for help on accounting. Ernst and Whinney seconded someone for three months to sort out day to day accounting matters and set up longer term financial controls.

NatWest

Natwest contributes 1 per cent of pre-tax profits to community affairs. The bank's long recognition that business should act on community problems is indicated by the formation of its Social Policy Committee in 1974. The committee comprised the chairman and senior executive and non-executive directors.

The bank was one of the first companies to second staff to enterprise agencies. It does so usually at bank manager level, and there are 20 secondees out at present with enterprise agencies or small business organisations, a pattern which fits with NatWest's position as market leader in banking services to the small business sector.

On top of this, during 1982-84 NatWest set aside £1.25m for nine inner city projects, the biggest of which was to give a building in Brixton to a group of local charities concerned with aiding and training disabled people.

The bank also runs a "Matching Support" programme, where finance is provided for local community projects in which members of NatWest's staff are involved.

"Project Respond" is aimed similarly at schools to help them develop social responsibility programmes. Many hundreds of schools which have identified and reacted to local social needs have received cash awards under this scheme.

Other schools support goes to the Department of Trade and Industry's mini-enterprise scheme, which involves teenagers setting up and running small businesses. NatWest has renewed its commitment here for another two years.

NatWest's was the only bank in Toxteth, Liverpool, and it was rebuilt after it was burnt down in the riots of 1981. The following year it appointed four—now risen to five—special liaison managers for the inner cities it considered worst-hit.

The job of these managers is to bridge the communications gap that has long separated most inner city people from what NatWest calls "establishment" people and institutions. This has enabled it to get closer to ethnic minorities and people hoping to start up in business.

Lloyds Bank

Lloyds' contribution to BiC includes Sir Jeremy Morse, its chairman, as BiC's deputy chairman. Like the other clearers it supports the enterprise agency movement widely via secondees and cash donations to 100 agencies. Local branch managers are encouraged to become involved with enterprise agency activities.

The bank is also concentrating some of its support into the new breed of Business Innovation Centres. These are being formed as part of the European Business Network, of which Lloyds is also a member.

A special commitment to inner city regeneration is being made in North Peckham, where Lloyds is working closely with a Government Task Force. It is providing a special loan fund there to help small business creation. The fund will be run by a seconded manager, who will work with the task force and have specific responsibility for helping and advising new businesses supported by the new fund.

Barclays Bank

Barclays gives 1 per cent of pre-tax profits to community projects and this will amount to £650,000 in 1987. It operates a high level of secondments, with 20 managers at a time out in the community usually, at enterprise agencies.

Two recent developments indicate how the bank is tailoring its programmes to specific needs. The first is a low-interest loan scheme for central Middlesbrough, Moss Side in Manchester, and Waltham Forest in East London.

Under the scheme, each area is being given a loan fund of £50,000, which will be lent at only 6 per cent over 36 months to new or existing businesses which have difficulty raising finance from conventional lending sources.

In Middlesbrough and Manchester the funds will run alongside grants schemes run by the Government's Task Forces. These give cash aid for things like market research, advertising or start-up costs.

The Middlesbrough scheme is administered by Cleveland Enterprise Agency, which is to get £5,000 and a secondee from Barclays to help it operate. Barclays is also putting £20,000 into the Cleveland Business Centre.

Manchester will also get a Barclays secondee. The loan fund there will be administered by the Moss Side Agency for Economic Development, which the bank is also giving £5,000 for running costs.

At Waltham Forest, the loan fund will come under the local enterprise agency set up this year by another Barclays secondee.

The second new development is Barclays Youth Action, a £500,000 grant fund for youth projects which benefit the community. Registered charities can apply for grants of up to £15,000 for schemes designed to help the disadvantaged, create job opportunities for young people, encourage leadership skills or renew run-down areas.

A pilot scheme last year funded 12 projects at a total cost of £150,000 and was successful enough to encourage Barclays to more than treble funds for this year's applicants.

Enterprise Loans

Enterprise loans have also been adopted this year by several companies and targeted at specific areas.

Lloyd's of London has this year started a £50,000 enterprise loan fund in the East End of London. The loans will be available through east London's developing network of enterprise agencies and will be for start-up and business expansion where finance is otherwise difficult to find.

The fund has been set up by the Corporation of Lloyd's, which hopes that other organisations associated with Lloyd's will also support the fund to increase its size.

On Merseyside, where it has its headquarters, **National Girobank** started an enterprise loans scheme in January and was immediately flooded with inquiries.

Applications are fed through the network of nine Merseyside enterprise agencies, the Small Firms Service, Merseyside Enterprise Board and Merseyside Development Corporation. Terms are variable according to ability to repay, with interest likely to increase to more normal levels as new businesses prosper.

About £100,000 of the first £500,000 has already been committed. Applicants do not need collateral or financial resources (only a marketable idea that has been vetted by one of the "filtering" agencies.

The trailblazing for the schemes, however, was actually carried out by Shell which started an enterprise loan fund in May last year. In this case £500,000 has been allocated between the enterprise agencies in Cardiff, Bolton, Newcastle upon Tyne, Falkirk, Belfast and London. Loans are usually for up to £5,000.

Specific companies seem to be adopting them in specific areas. In Glasgow, for example, it is TSB which has put up the money, in this case £100,000 for young people who want to set up their own businesses or become self-employed.

The sums here are for up to £3,000 and the fund is administered through Glasgow Opportunities, the local enterprise agency.

BP is setting up a £4m enterprise company to redevelop up to 1,500 acres of its refinery site in Llandarcy, South Wales

Hazel Duffy describes 3 local projects, starting with Finsbury Park

Business partnerships for jobs

THE CORNER of Finsbury Park where BiC is working is one of those forgotten parts of London which all too convincingly destroy the myth that poverty lies north of the M25.

It sits in a triangle straddled by three local authorities, each of them preoccupied with inner city problems. The area is crisscrossed by railway lines. Buildings lie empty, waiting for somebody to move in and restore them, or knock them down. Unemployment, particularly among the ethnic minorities and the young, is discouragingly high.

This unpromising territory is the scene of dedicated effort by the Finsbury Park Community Trust, set up in 1985, to improve life in the area. A year later, the trust, convinced that it needed to work with business if it was to achieve its aim, asked BiC to help in making the all-important initial approach to companies.

The big names from commerce and industry were lined up to accompany the Prince of Wales and BiC officials on a walkabout last spring.

The visit went off reasonably smoothly, although not without incident. The important result, however, was pledges of help—financial and advisory—and the establishment of the first of a number of neighbourhood community partnerships.

Its aim is to bring the benefits of business to residents of areas previously excluded, through financial support for community projects, the offer of jobs and training for the unemployed, and orders placed by big business with small firms in the area. It is very definitely not charity.

The Bank of Credit and Commerce International, for instance, is in discussion with BiC and schools in the area on how they might take 10 young people into their City offices straight from school.

Mr Alastair Murray, personnel adviser to BCCI, explains why: "One reads about inner city deprivation, but in the City we are very remote from the problems. We participate in Project Fullemploy and other projects, but this seemed something we could do to help stop those youngsters leaving school and going straight on to the unemployment statistical stockpile."

The youngsters, who will be approached in their last year at school and possibly given two weeks' work experience with the bank, will almost certainly not reach the educational standards normally required.

But the bank, which is taking them on as extra to their usual intake, will train them, and hope to absorb them into the workforce. Furthermore, there will be a specific attempt to ensure that they are trained further for more responsible jobs at a later stage.

Project Job-Link is also being looked at by J Laing, and Colonial and Mutual Insurance.

Other contributions from the business community have been financial and advisory: Occidental Oil has donated the cost of setting up a neighbourhood partnership office in the area; King & Co, and Harris & Co, valuers and quantity surveyors are giving their technical and professional advice on the feasibility of converting a derelict bingo hall into a community centre.

There are high hopes that a major donation from the Middle East will secure the construction of a mosque in the area. Other companies—Barclays, National Westminster, and British Rail, have asked for guidance on how they could help.

The aim of the Finsbury Park project is twofold: social and economic. By improving social facilities, it is hoped at the same time to stimulate economic activity in the area itself—using local builders and labour, and providing premises.

In the end, the community will have to demonstrate that it can manage without BiC, but, it is hoped, with the continued support of business, the local authorities, and the Inner London Education Authority, all of which have pledged their help.

The agreement between BiC and the trust is to help it for two years. During that time, BiC staff will encourage the trust to develop as a "community entrepreneur."

Handsworth

Redundant baths lead revival

THE OLD HANDSWORTH Baths are the focus for brave hopes in this deprived Birmingham suburb. The realisation, after nearly four years of planning, should begin in two months. That is the start date for converting the redundant baths, housed behind a solid Edwardian red brick facade, into a community resource centre for local groups.

The plan is that it will be a centre for local people with different ethnic backgrounds, different aspirations and different ideas about what a resource centre should house. The remarkable achievement has been to bring these desires together, to bring in business, Birmingham City Council, the Government Task Force in Handsworth, the Confederation of British Industry, the Manpower Services Commission, and, of course, the groups themselves.

Not least in this rollcall of players is Prince Charles, BiC president, whose visit and discussions last year, say community group leaders, really started to get things moving.

Mr Jim Howrie, from the architects John Osborne, is undoubtedly one of the unsung heroes. "The baths were designed by his firm at the beginning of the century, just as the terraces of Handsworth houses—also still standing—were being built. "The continuity of being asked to design the conversion was one of the reasons I got involved. The other, and major one, was because of the people in the community.

He has produced plan after plan, in discussion with representatives of the groups which will use the centre, trying to meet their wishes while ensuring that costs are contained sufficiently to enable the project ever to be feasible.

The pools themselves have already been demolished, ready for a new building to go up, although the existing outside walls will be kept. The bath house, which originally had a Turkish bath and washing baths, is being retained and converted to provide office space, shared amenities, an exhibition area, library, small meeting rooms. All this will connect with the new building housing catering facilities, the main hall, rehearsal rooms and workshops.

The workshops are important in an area where such facilities at a low rent are limited. The council is also siting its Handsworth youth enterprise centre in the building, where training for self-employment will be offered.

The enterprise section—which will try to address the single most important problem in Handsworth of unemployment—will share common facilities with the rest of the activities, permanent and temporary.

Community organisations involved include the Sikh youth service, Adeoti—promoting Afro-Caribbean arts and culture—and Positive Image which represents a group of women working for mutual support. Other groups will also be encouraged to use the facilities.

The group leaders keep a close watch on the development of a project which has become a very real part of their lives. They will manage it along commercial lines, they insist. And, eventually, ownership may well be vested in thir groups in a trust form. Initially, the council is leasing the building to them.

BiC's director of Birmingham, Mr David Wright, explains that his organisation's role is one of "catalyst, and particularly fostering interest of the private sector which is likely to be more involved with the youth enterprise centre."

Funding has been formulated and revised many times. The Task Force, however, has agreed to put in £250,000 and hopes that the private sector will match this.

The building work will be carried out as far as possible using locally recruited labour, and in itself will be an exercise in improving skills and management of the participants.

Prince Charles makes a point to Mr Hashim Siddique, leather workshop owner, during his recent visit

Spitalfields

A fragile first base

SPITALFIELDS 'WAS catapulted into the public eye at the beginning of July when the Prince of Wales, as president of Business in the Community, went on a walk-about.

This web of streets wedged between Whitechapel Road, Commercial Street, and the southern borders of Bethnal Green, has a long and fascinating history, as the beautiful Hawksmoor church and some of the restored Hugenot weaving houses bear testament.

By tradition, it is a place for working and living—sometimes the only entrance to workshops was through living quarters—and a place where immigrants have made their first base.

The combination means that the much-needed improvements in living and working conditions has to be handled particularly sympathetically and delicately if the existing economic structure is not to be undermined. In addition, there is the close proximity to the City where pressure for office space is pushing to the western edges of the district. Three property groups have submitted proposals for the redevelopment of the Spitalfields market, which is the property of the City of London Corporation.

The proposals are for major projects which will bring offices, as part of a mixed development, to the very borders of the district.

Against this background, the visit of Prince Charles and business leaders took months of careful planning and liaising by BiC personnel with local authority and community leaders.

BiC's aim is to form a neighbourhood partnership with community organisations. That is the responsibility on the ground of Mr Stephen Lord, BiC programme director, who has established the precedent in Finsbury Park. They will work together in the community and, it is hoped, with the newly-appointed Government Task Force in Tower Hamlets, to develop and extend private sector involvement through the BiC network.

The importance of this approach can be appreciated when the nature of the problems of the district are put across by people like Ms Kay Jordan, co-ordinator of the Spitalfields Small Business Association.

"We managed to get money from the government urban programme to renovate some of our workshops. If we had gone to the private sector to raise the money, the interest charges would have been such that the rent we would have had to ask would have driven out the small businesses now using them. We have a relationship with our tenants, and we try to meet their needs."

The economic base in the area is fairly fragile. Demand for the making-up of leather garments, for instance, depends substantially on a low cost operation which can compete with cheap imported garments.

There is any number of outlets for financial contributions from the private sector. The Toynbee Hall Training for Employment Centre, for example, needs donations for equipment to help train unemployed people in new skills; the Tower Hamlets Centre for Advanced Technology Training, which concentrates on providing young unemployed people over 21—60 per cent are women—with one year training in computer literacy and information technology, could do more with more funds.

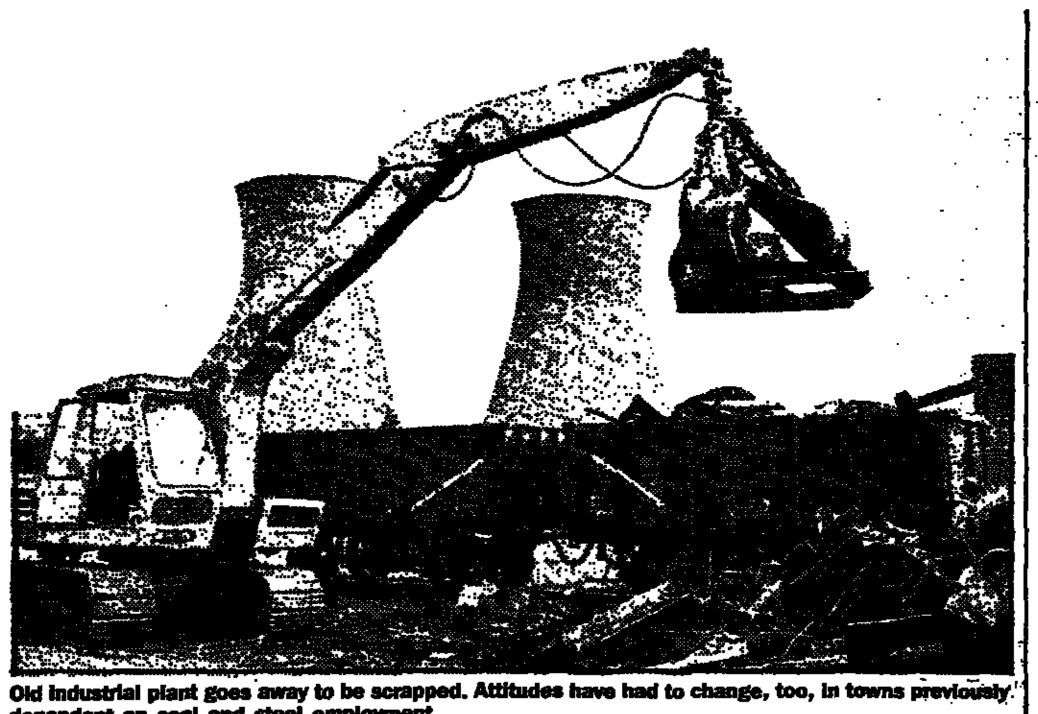
Equally important, however, are offers from the private sector to employ them. Community leaders, and industrial placement officers, confirm that there is nothing more demoralising than finishing a training course only to find that there is no job at the end of it.

There are many initiatives in Tower Hamlets which have the help of the private sector, varying from recently launched small business loan funds, sponsored by Kleinwort Benson and Lloyd's of London, to the compact between the London Enterprise Agency and the Inner London Education Authority which aims to reconcile employers' needs with pledges by schools to produce suitably qualified school leavers, in return for jobs pledges by the employers.

Housing and social facilities in Spitalfields are frequently very poor—Prince Charles was appalled, as would be most City workers if they could see people actually having to queue to get into the doctor's waiting room. But BiC is concentrating on facilitating economic opportunities for the Spitalfields residents, in the belief that this is what underpins the community as a whole.

Coal & Steel

Guidance and funds for ' one industry ' towns



Old industrial plant goes away to be scrapped. Attitudes have had to change, too, in towns previously dependent on coal and steel employment.

TWELVE YEARS down the line, BSC Industry believes it has some lessons to pass on about the way business can help the community if it tackles the job systematically.

It was founded in 1975, when British Steel could see massive job losses on the way and—in the steel towns of the Midlands, North and Scotland—whole communities thrown out of work. The idea was to help generate other employment.

In the end 20,000 jobs were lost from the industry and the Corbys and Consetts are still struggling to recover. But one thing is certain: wihout BSC Industry, things would have been much worse than they are now.

The total of businesses helped now exceeds 2,600, and these have created about 60,000 jobs—half the number of jobs lost. The amount of money invested is £22m.

The organisation supports 18 enterprise agencies in the steel closure areas, Sir Charles Villiers, the chairman, having grasped the principle and value of the idea when he was one of the first visitors to the pioneering Community of St Helens Trust in 1978, an event which helped the agencies' nationally explosive growth.

BSC Industry holds frequent conferences and seminars for the 18 agency directors to help them co-ordinate and advance their work and identify problems and opportunities that can be short-circuited by those not yet affected.

At the same time, BSC Industry runs eight managed workshops and is building a ninth. It pioneered the concept in 1979 with Clyde Workshops, converted from part of the old ironworks near Glasgow.

These provide small areas of workspace on an easy-in, easy-out basis, with professional help on finance and management to be tapped into on the spot. About 300 businesses occupy 418 individual units between them at present and about 1,000 have started in this way, most moving on as they succeeded and outgrew their space.

Mr Roger Thackery, BSC Industry's chief executive says: "We can't tell how many people would have got going on their own somehow, given time. But we believe that we have helped accelerate the process and get many people into work who would not have jobs otherwise.

A similar scale of job losses has taken place in Britain's coalfields, with much larger numbers of individual communities — the pit villages — affected.

It is a reflection of political realties that British Coal Enterprise was not founded until 1984, when the Government decided to take on the miners and rationalise the industry, but things have moved since then.

Initially, the Government authorised the then National Coal Board to make £5m available but this was soon doubled to £10m. British Coal Enterprise likes to give the impression that this was due to rapid success but the timing of events in relation to the coal strike tells its own story.

The money available was soon doubled again and then, in June 1986, further doubled to £40m, with assurances that even more would be available if needed.

The organisation is run by Mr Tony Hewitt, an accountant who used to be finance director of the Coal Products Group, supported by seven regional managers, each of whom operates in a major coalfield.

Between them they claim to be helping in the creation of job opportunities at a rate of 1,000 a month. The main vehicle is through loans for business start-up, expansion or relocation in the coalfields. There are no upper or lower limits to sums available.

Money is also there for conversion of redundant buildings or construction of purpose-designed factories or offices.

When it comes to enterprise agencies, British Coal Enterprise support is massive—an annual £1m for 90 agencies in the coalfields. The agencies have been useful "front offices" for British Coal Enterprise, introducing new projects for support by acting a direct interface with the community.

However great these efforts, there is nevertheless a problem: finding employees with the right skills for many of the projects involved. In the coming year British Coal Enterprise will therefore take responsibility for re-training former miners, as well as gearing up to offer training packages for any businesses it supports.

What British Coal Enterprise is doing, therefore, can be seen fairly as massive but late, however effective it may be. BSC Industry presents a telling contrast. It started early and is now able to pass on the benfits of its own struggle down the learning curve, which has taught it some useful lessons for the future role of business in the community in general.

For a start there is the money. The £22m that went in from what are, in effect, public coffers, given the nationalised nature of the steel industry, has proved cheap compared with the £40m that has had to be injected at great speed into British Coal Enterprise.

BSC Industry should not actually require any more—its activities are now self-supporting. Its funds have become revolving ones, with interest and earnings from rents and the like being ploughed back for growth and reinvestment.

This means it is helping to generate real wealth and economic growth in the parts of the national small business sector it is responsible for nuturing.

Mr Thackery says: "The philosophy of the enterprise agency as invented by Bill Humphrey at the Community of St Helens Trust was right for its time, but things are now overripe for the whole thing to move. We at BSC Industry believe that the need is for much more professionalism to be brought to bear on the small business sector."

He says there are three key areas—encouraging growth among the better prospects rather than willy-nilly job creation, more innovation through technological entrepreneurialism, and a drive to change attitudes to business and enterprise among young people, particularly when still at school.

Managing the right sort of growth he sees as critical. Helping small businesses start and grow is intensive work but BSC Industry's experience is that only about 15-20 per cent will be capable of getting beyond the "micro-business" stage. He thinks effort should be concentrated among them.

The expansion of new jobs that this minority can bring about more than justifies putting special efforts into helping them, he says. The sort of figure he has in mind is growth from employing 10 people to employing 30.

Mr Thackery wants a national campaign to spot them, and formulae to be developed to offer help. He says that networking information and intelligence among all the different types of agencies involved under BiC's general umbrella, and among local authorities, accountants and lawyers, will identify candidates.

The networks would also be ready to act on syndicating finance packages for the inevitably large sums which would be needed in many cases.

On innovation, both BSC Industry and British Coal Enterprise are active in supporting the new and developing network of Business and Innovation Centres, such as those at Barnsley and Strathclyde. Mr. Thackery sees a supportive environment, soft loans and cheap money as key mechanisms for encouraging people to develop prototypes and get them ready for full production.

But it is on fostering entrepreneurial attitudes among the young that he pins long term hope. The steel towns were largely populated by workforces who grew up learning a narrow range of skills and expecting other people to provide labour for them to work at.

Mr Thackery says: "We have to move away from the idea of what can people do for me, rather than what can I do for them or for myself. We are not necessarily trying to get people to become self-employed, but training them to want to acquire flexible skills so that they can work in a wide variety of smaller businesses."

Youth Enterprise is one scheme BSC Industry is therefore supporting wholeheartedly, together with specific projects in the North-east—a region long dependent on big employers, with all the loss of entrepreneurialism among generations of workers that results from this.

More than 300 schools are now involved in various awareness projects in the steel closure areas, with Durham University providing a lead and the academic rationale. This is where future generations of job-creators are going to come. By the time they are ready for money and premises, Mr Thackery hopes they will be able to get a fairer wind than ever before.

Ian Hamilton Fazey

Scotland

A cultural conundrum

"THERE ARE repeated references to 'fostering positive attitudes to enterprise' which give political bias to the White Paper [on Higher Education] and suggest a less than objective approach by the authors."

That quotation is from a document produced by the Educational Institute of Scotland, which as well as being Scotland's leading teachers' union is often a source of thoughtful comment on educational issues.

It must make depressing reading for many Scots—especially those who believe that the answer to their country's economic problems lies less in political solutions than in changing deeply-rooted anti-business attitudes.

Mr Graham Ross, director of Scottish Business in the Community, acknowledges that the "anti-enterprise culture" in Scotland makes the task of his organisation more difficult than it would be, for instance, in the south of England. "I've been told that it would take 30 years to overcome," he admits. But spreading the merits of enterprise has to be one of the main objectives of ScotBic, along with getting the private sector to accept the "philosophy of corporate social responsibility."

ScotBic, now five years old, is the umbrella organisation of 37 local enterprise trusts which effectively cover 80 per cent of the Scottish population. The organisation is backed by about 1,000 companies, large and small, which provide 57 per cent of the trust's financing of £3.2m. The rest comes from local authorities and the state-sponsored Scottish Development Agency.

Scotland's local enterprise trusts include organisations with such catchy names as EVENT, Edinburgh Venture Enterprise Trust; GO, Glasgow Opportunities; and FEAT, Falkirk Enterprise Action Trust. They see their role not so much as providing finance for small businesses (that is widely available) as offering advice to people trying to start up new businesses. In some cases they provide work space, and give advice to young existing businesses that may be crucial to their survival. "After-care to the fledglings and medium-sized companies is coming to be seen as crucial," says Mr Ross. "There is more potential for job creation among medium sized companies than among very small ones."

ScotBic says that in 1986 some 2,000 new companies were formed with the help of the trusts, leading to the creation of over 4,000 new jobs and a safeguarding of a further 4,000 existing jobs. Mr Ross emphasises the importance of partnership between the business backers of ScotBic and the public sector, mainly in the form of the local authorities. It is possible that this linkage is more vital in Scotland, where local authorities are usually highly regarded and perhaps more influential, than in the rest of Britain.

BASE—Bathgate Support for Enterprise—is probably the largest organisation under the wing of ScotBic and is closely related to Lothian Regional Council and West Lothian District Council, as well as the Scottish Development Agency. Like organisations such as the Inverclyde Enterprise Trust operating in the Greenock area, it has the task of trying to regenerate the economy of the area around Bathgate to the west of Edinburgh. The idea has been devastated by the decline of mining and, more recently, the shutting down of a big Leyland truck factory which once employed 7,000 people.

Not surprisingly Rover Group is one of the business sponsors of BASE. Others are British Coal Enterprise, BP, Arthur Young and Levi Strauss. Mr Michael Fass, director of BASE, claims that about 100 new businesses have been started up since BASE began in 1983, about seven of which "are beginning to go places," and that the failure rate is just 12 per cent, compared with 40 per cent in some areas.

Two months ago BASE went a step beyond most other enterprise trusts in securing the setting up of the Bathgate Investment Fund financed by the Royal Bank of Scotland and the SDA. It has £500,000 to invest but hopes for a multiplier effect of about eight because of other funds this should unlock.

The projects specifically backed by the private sector sponsors of BASE are good examples of how the local enterprise trust movement works in Scotland. Arthur Young, the accountants, have recently sent a secondee from their managament consultancy division to Bathgate for three years. His task is to study and advise companies that have been identified as having growth potential. Altogether, throughout the ScotBic network, there are currently at work 25 secondees from private sector companies.

BP, once heavily involved in the shale oil business in the Bathgate area, sponsors a project for encouraging people to come forward with "bright ideas"—to which it provides a total of £10,000. Levi Strauss, the US company which has a jeans plant at Whitburn, and which plays a strong role in community affairs worldwide, sponsors and funds a project for young people which operates through the schools.

BASE works with teachers from six local high schools to encourage "enterprising behaviour". That does not necessarily mean setting up a business but rather developing enterprising skills, "tryiing to get people to organise themselves, to manage their affairs well and co-operate with others, not just in business", as Mr Fass puts it. He now plays down the use of the phrase "enterprise" and prefers to talk of "business founders" rather than "entrepreneurs".

Is this a surrender to the anti-enterprise tendency of the type that appears to find sympathy with the EIS teachers' union and elsewhere? "It's not that there's not an anti-enterprise feeling here, so much as scepticism about the idea that West Lothian can be made to float only on a sea of single person businesses," says Mr Fass. "

James Buxton

Black needs

An aid network for minorities

AMONG the 250-odd enterprise agencies in England and Wales is a handful of agencies specifically set up to assist the black community.

Their development was aimed at targeting the particular needs of black people and bringing their issues onto the agenda of organisations such as BiC.

Black entrepreneurs, it has been claimed, face particular problems in finding sympathetic bank managers. In addition they do not enjoy the networking among the majority, white business community. Finding start-up capital and presenting business plans are also problems.

Mr Joe Greenland, director of Deptford Enterprise Agency, in South London, opened last year, said: "Unless you can focus on an issue and bring it to the consciousness of the decision-makers it can get overlooked. The promotion of black, and in particular Afro-Caribbean enterprise, is an area of neglect but is potentially an area of great wealth creation."

His enterprise agency, located in Deptford High Street, employs six people including a secondee from Lloyds Bank. Since it was opened last year it has assisted about 500 people and up to 30 new businesses have been set up. About 25 per cent of clients are white.

Other enterprise agencies, set up with specific reference to addressing the problems of black people, include one in Hackney, North London, and one in Handsworth, Birmingham.

Mr Greenland said a problem that he was particularly aware of was the lack of seed corn money for new businesses. He has identified funds in his enterprise agency to assist people but said more was needed.

Mr Greenland said that there was often a large gap between what a bank would lend to an individual—say, £5,000—and what a venture capital organisation was prepared to lend, that is £100,000 plus.

"This calls for an enterprising funding agency," said Mr Greenland, "one that would be interested in sums in between." There were, he said, some government schemes but often technicalities, such as the need for a company to be a limited one, prevented their usage.

Mr Greenland's crusade at present is to try to persuade more large companies to have a positive purchasing policy towards black businesses. "I would like to see large companies taking small black suppliers under their wing and assisting them in meeting supply standards." He said this occurred in business generally, with major companies having close working relationships with suppliers.

Mr Greenland said more and more black entrepreneurs wanted to be in the mainstream of business activity and not just service the needs of an ethnic marketplace.

His own agency, he said, was not a "black agency as such but rather made a conscious effort to try to assist black people to develop their ideas.

Despite the success of agencies like the Deptford one, it is unlikely that any more agencies will be set up for such a specific purpose. Mr John Hyatt, of BiC said there has now been a shift in thinking, away from specific agencies. "We ought to be making first class agencies that are open to everyone. It is patronising to single out individual groups of people."

The move away from specific agencies for different groups of people is supported by Mr Tony Wade, the only Afri-Caribbean member of BiC's council. "The initiative was a good one and it helped stimulate and articulate problems that many black entrepreneurs felt," he said.

However, Mr Wade felt that as part of moving black people into the mainstream of economic activity it was important that they were not segregated in specific agencies.

Lisa Wood

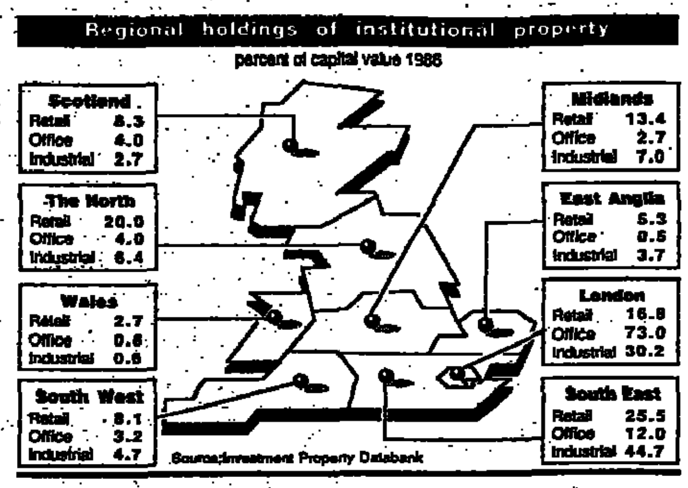
Property interests

Revival hopes are high

THE GATHERING effort to revive inner cities, to reclaim derelict land and to restore the tattered edges of the country's economic fabric will depend crucially on the willingness of the financial institutions to spread their property interests outside the south east.

The general picture that emerges of the institutions' investment and financing patterns shows a huge bias towards the south east and especially central London.

The significance of this goes beyond mere sectoral interest, because property development can be a catalyst for more general economic development. Not only that, it provides the infrastructure for this economic development. At the most basic level, the person with a business idea cannot undertake it without the premises in which to act it out.



So the funding is crucial. And here there are two key elements. First the insurance companies with their property funds and the pension funds with their property investments. Second the banks, among which the foreign banks are playing an increased rôle with the funding organised in London.

The two interact because the lower interest in property generally among the insurance companies and the pension funds has left a financing gap which the banks have progressively filled. Further, developers with bank financing often hope that the property once completed would be bought by an insurance company or pension fund.

Last year the commitment of the insurance companies and pension funds to property, in terms of their net investment, was the lowest for seven years. But outstanding bank debt to property companies last year was more than four times that of 1980.

The difficulty is that the greater part of this investment, from both parts of the financial community, is not being drawn into the areas where the economic and social need is seen politically to be greatest, but is strengthening the economically strong part of the country.

Take the banks first. A survey by Debenham Tewson and Chinnocks, the surveyors, made the point that the overwhelming first preference for banks taking on new business is for the funding of City of London offices. This is especially the case with the foreign banks.

Debenham says: "Outside central London the range of foreign banks willing to offer loans drops sharply. The high street banks, of course, have a nationwide branch structure and if this group's preferences are discounted from the results there is only a minority interest in all regions outside the south east."

The outlook for new entrants in the field outside London becomes more dismal because the majority of banks require equity input from the borrower that would be equivalent to one third of the total loan. "Only a very small minority are willing to consider loans exceeding 80 per cent of the development's completed value," according to the survey analysis.

Once this caution on lending outside London is allied to the parallel phenomenon of the reluctance of the insurance companies and pension funds to expand their investment geographically, then the financing problem of creating an infrastructure for regeneration becomes more acute.

The biggest single store of data about institutional property investment—meaning insurance companies and pension funds—is the Investment Property Databank. Its latest analysis of institutional property holdings noted that last year London accounted for 46 per cent of their value and the south east accounted for a further 21 per cent.

The IPD noted what it called "interesting variations in the regional allocation of property funds by the institutions." Largely as a result of recent purchases, "the traditional institutions have the strongest interests in the northern regions of England and in Scotland. The involvement of the insurance companies, pension funds and property unit trusts in these regions is very similar at around 24 per cent of values."

The heaviest commitment to London is from the insurance companies, which have 51 per cent of their assets. The pension funds keep 44 per cent of their property interests in London and the property unit trusts 31 per cent. But the property unit trusts have the greatest exposure in the south east at 34 per cent.

Significantly from the point of view of achieving a more even spread of national economic activity, the south east has seen a build-up of instiutional investment in industrial property — 11 per cent since 1980. This region holds 45 per cent of all institutional investment in industrial property. It is the only region of the UK where industrial holdings have increased in recent years.

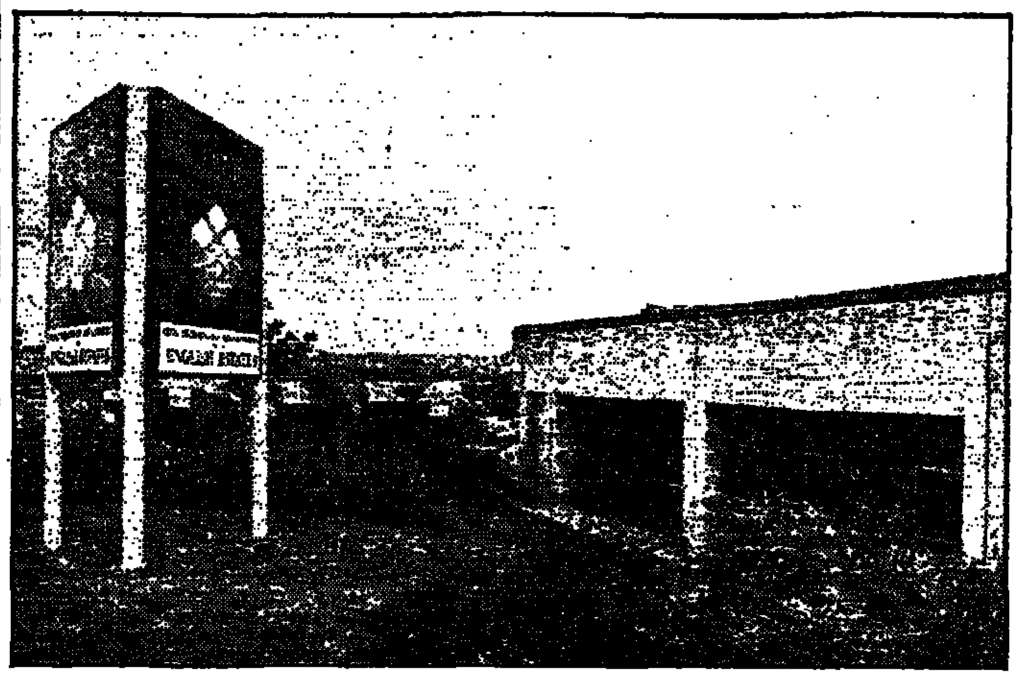
The attraction of the south east for all types of property investment is not far to seek. Especially in central London both rental and capital values have been increasing at the same time. This is not necessarily the case elsewhere. At a time when fund managers are under pressure to provide short-term performance they are likely to go to the area when they can find it.

None of this is to suggest that simply because the institutions are not present in an area nothing will happen. But, just as the presence of a Marks & Spencer makes a shopping centre more attractive to smaller shops, so the presence of the institutions in an area makes it more attractive to smaller developers because the property values get pushed up.

There is one part of the property industry, however, where the regional bias of institutional interest is much less marked. This is the retail sector and institutional investment has been widespread both in town centre and in out-of-town shopping centres.

The Investment Property Databank observed that "most regions outside London had seen some growth in their share of retail investments, particularly since 1983." This has been particularly marked in the northern regions of England and Scotland and to a lesser extent in the Midlands.

Paul Cheeseright



The science park at Listerhills

Profile: Listerhills

Doing the impossible

LISTERHILLS IN central Bradford is a nine-acre site debilitated by 19th-century stone mining. It is a site which local developers have left alone although the areas around it have been regenerated. The problem has been subsidence.

Member companies of the British Property Federation, the umbrella group for the developers and property investment companies, have been working on a scheme which would, it is hoped, bring that site back to life.

This is the property industry's main collective effort on the ground, outside the normal activities of development companies, to take part in the process which aims at re-using run-down city areas.

It is an acknowledgement that as Alan Tate, the town planning partner at Healey and Baker, the surveyors, put it: "It is in the re-use of the existing urban fabric that the greatest challenge of the 21st century may well lie."

The same motivation has led the British Property Federation to become a founder member of The Phoenix Initiative and to contribute £5,000 last year and this year towards meeting the expenses of Phoenix.

The Phoenix Initiative seeks to promote urban renewal by bringing about a partnership between private sector interests and the public sector. It is working up schemes for central Manchester and Salford.

The federation's representative on the board of Phoenix is Mr John Brown, its immediate past president and the chief executive of Peachey Property Corporation.

But the main thrust of the property industry's work in repairing the tattered urban fabric, and in doing that playing a part in job creation, will be done by individual companies as part of their normal commercial activity.

"The industry is not there to embark on altruistic activities. It cannot do that. But what it is doing is to improve the environment," said Sir Peregrine Rhodes, the federation's director general.

The significance of the Listerhills scheme in this context is that it is designed as a demonstration project, to show what can be done with a site that hitherto has been seen as impossible, and in doing that to harness private sector expertise with government funding.

Two years ago the federation started to look for a difficult site. Once it had come across Listerhills it made contact with Bradford City Council and enlisted its cooperation.

Back in London, the federation set up a working party, chaired by Mr Geoffrey Carter, property chief at Trafalgar House, the shipping, property and construction group and now the president of the federation. The working party members are Mr Malcolmn Savage of St Modwen Properties, Mr Trevor Moross of Dorrington, Mr Stefan Wingate, formerly with Wingate Property, Mr Ian Perry of New England Properties and Mr Ron Spinney of Greycoat.

Each has been taking work to his own company to do, so that the project has now reached the stage of looking at the financial options. But an essential part will be at least £1m of urban development grant money to counteract the subsidence. The application is now going through the Department of Environment.

On the site it is planned to use 1.5 acres for housing and the units would be controlled by a housing association. There would be 25 studio workshops which would be available for purchase — and the sale of studio workshops is a new concept for this area. Talks are going on with a building society to see if mortgage funding could be put in place. There would also be managed workshops.

Facilities on the site would include half a dozen small shops and one larger one. And there is also a derelict pub, which would be refurbished prior to an application for a licence.

The next stage will be to find a lead developer, preferably a local company. The federation is sensitive to any suggestion that this would be a London scheme foisted on Bradford. So there is the firm intention that all the work should be done by local concerns.

All of this is aimed at showing what can be done. "If it can't be done because the grants are inadequate, then that is a lesson for the Government," said Sir Peregrine. It is, he emphasised, a one-off venture.

What is involved here is a way of looking at development, illustrating that regeneration of derelict land need not be confined to the easy sites. It is asking, in effect, for a leap of the imagination.

The ultimate contribution of the property industry to this process of renewal will probably be judged by just how many individual leaps of the imagination it can make. They have been taking place, and, doubtless, there will be more.

The clearing of rat-infested wharves to create London Bridge City by St Martin's Property is one example. The idea that an alternative to the City of London could be created in the Docklands to the east is another: when American and European banking interests saw the possibilities of Canary Wharf the success of the London Docklands redevelopment was by no means assured.

Similarly, Stockley saw that it would be possible to reclaim a rubbish dump and create a golf course alongside a business park outside Heathrow Airport, so that it became involved with the local authorities on the provision of sports facilities for the local community.

Cameron Hall Developments saw that a new retail and leisure centre could be created on the site of an old ash dump at Gateshead. Richardson Developments set up an industrial estate, then founded a new shopping centre and started to add on leisure facilities where once there had been a steel mill at Dudley, near Birmingham.

These projects all have in common thinking on a large scale. Most have gone further than the immediate development which provided the basic commercial reasoning for starting the scheme. In doing that they learn from the US experience that, for instance, a business park is not just a collection of attractive buildings. It can be drawn into a wider landscape which offers new facilities to the community at large.

Paul Cheeseright

Secondment

A challenge for managers

"IT WAS ONE of the most challenging and exciting times of my working career," says Jill Fowler, who was seconded from the Prudential Corporation to build up an organisation to help disabled people find jobs. In two-and-a-half years she increased the number of employment centres from 3 to 11 and is now back at the Pru running the community affairs section which organises secondments.

Mrs Fowler is typical of the successful mid-career secondment where experience gained outside the parent company can lead to promotion on return. Other examples cover the whole spectrum of employment from directors to secretaries and from young recruits to those approaching retirement.

Tony Weddle was managing director of the machine tools section of TI Group after running three other sections of the company. He was approaching his mid-50s with a vague feeling that it might be time to seek a fresh challenge. This coincided with a move within the group to become more involved in community work. He is now on secondment as East Midlands regional director of Business in the Community before taking early retirement in the autumn next year.

Near the other end of the employment timescale, Bill Lambert is at an early stage in his career with Ernst and Whinney, the accountants. He has been seconded to the London Enterprise Agency for three months to broaden his experience and commercial awareness.

"It has taken me into a very strong business environment where I have had to take business decisions . . . it definitely enhances relations with clients," he says.

Mr Weddle's view is that secondment can be of great help to all concerned—the individual, the company and the community project—if enough trouble is taken at the planning stage to ensure a good match of person to job.

"Industry still has no idea of the real value of secondment in management development. Some organisations are using it well to extend the experience of employees, but it is only a handful . . . it has quite enormous potential."

Similarly, Neville Martin, who has been seconded after 32 years with Marks & Spencer in stores management to be BiC regional director in the north east, believes that the contribution that can be made by senior executives can be immense and is not always appreciated. "Most people who come out of big organisations at the pre-retirement stage are very nervous and question their value in the outside world, but they can be a tremendous help to the small businessman in getting his thought pattern right," he says.

The idea of detaching skilled executives for periods of between three months and three years to help community groups, has been in use for about 15 years and around 500 are currently out "on loan." They make a major contribution to local projects and to small businesses, particularly through local enterprise agencies which make use of over 300 secondees.

But the idea really took off in the late 1970s after the Labour government launched its inner city programme. Then came the Sunningdale conference in 1980 called to discuss how to inject more private and corporate capital into community projects.

The idea received a fillip from the devastation of the St Paul's area riots in Bristol. The principle was further boosted by Mr Michael Heseltine's Lend a Manager scheme after the Toxteth riots in Liverpool in 1981 and by the sharp decline in the workforce of employers like British Steel. This encouraged the view that unemployment was here to stay and it was up to industry to try to do something about it.

A group of companies including Marks & Spencer, Shell, BP, National Westminster Bank, United Biscuits and IBM, decided to set up a vehicle to promote corporate involvement, using the pioneer work of Pilkingtons in St Helens, its company town, as a yardstick. From this has grown Business in the Community, with 250 members who use secondment as an effective means of helping community projects.

Some companies, particularly ICI, continue to operate partly outside umbrella organisations like BiC, preferring to develop their own links with local communities.

Both BiC, a business-led organisation promoting partnership between business and local communities, and Action Resources Centre (ARC), a community-led organisation that delivers practical help from business to meet local needs, act as bridges between the private and public sectors of industry and the wider community. Through its 12 inner city based branches, ARC provides help in two key ways—initiating and managing development projects, and secondment.

Continued on page 12

Halifax has its catalysts helping the city's development, says **Ian Hamilton Fazey**

Enthusiastic working of miracles

WHAT MAKES a "social entrepreneur," the description coined by Mr Stephen O'Brien, BiC's chief executive, for the "enablers" who act as catalysts in the community to make things actually happen?

In the case of Mr Ernest Hall, worker of miracles at the formerly disused Dean Clough carpet mill in Halifax, his childhood in Bolton—and a crushing humiliation—had a great deal to do with it.

In the war years he was a boy-wonder pianist, performing the Warsaw Concerto and the Rustle of Spring in Lancashire music halls and theatres on the same bills as the famous comics of the age.

His excellence at music helped overcome the social handicap of being a working class boy on a scholarship at grammar school, so pride swelled when the headmaster singled him out in his end-of-year review for a talk he had given on Rachmaninov.

But what a pity, said the head, that young Ernest had ruined things by saying "we was" instead of "we were." Mr Hall recalls: "I have a strong sense of injustice. It's nothing to do with politics, but a lot to do with that incident. Everyone said 'we was' where I came from. It was no cause to ridicule someone in front of the school. I have been on the side of the people who say 'we was' ever since.

"Many people feel socially inadequate at school and it gets worse as they are exposed to the unfairness of a system that rewards one type of success while reinforcing failure among those who cannot compete.

"The difference between being poor and being a millionaire is only an unbridgeable gap if you have the wrong attitude of mind. Enthusiasm and confidence are the main ingredients you have to put in.

"But confidence is fragile. Damaging people's confidence is easy and damnable. An incident like that 'we was' was one that will destroy most people. Fortunately, my reaction was positive. 'I'll show them,' I thought and I did."

He became a millionaire, although just how to make a living at all was what occupied him after a prize-winning period as a scholarship student at the Royal College of Music in Manchester.

His family knew a lot about his talent—with one living room at home they had to put up with young Ernest practising on the second-hand upright piano that had been bought for 30 shillings. They did so because it was not the same as conventional homework, which they saw as a token of learning likely to prove socially divisive.

Music, they thought, would see young Ernest right because he would be able to play in dance bands where there was money to be made.

Mr Hall, who had been picked to play the most difficult piece at the RCM's concert in 1949 to mark the centenary of Chopin's death, was determined to do nothing of the sort. He could not see how to make anything but a precarious living from classical music and he certainly was not going to compromise his talent. He would do something else and keep playing as a sideline.

National Service gave him an understanding of office work and administration. He liked it. So in 1954, aged 24, he joined Mountain Mills, a small weaver in Queensbury, half-way between Bradford and Halifax, as an assistant in the office.

His family background helped—all his relatives were winders, warpers or weavers—and he now learned about cloth design, developing a fascination for the manufacturing process itself. He quickly worked his way through every job in the management and was managing director within three years.

The mill was taken over by the expanding Francis Sumner group, a public company. Mr Hall continued as MD of the subsidiary but found himself a member of the main board too. He borrowed £5,000 to buy shares and within two years their value had trebled.

In 1961 he bought out the little mill he ran and took on Tony Clegg to help him run it. They expanded by acquisition, specialising in fancy worsteds, and went boldly into the Carnaby Street age.

While wool weaving giants around them struggled, they marketed directly to new high street outlets called boutiques. They became a "big small business" making £100,000 pre-tax profits a year, run by whizz-kid go-getters still in their thirties.

Eventually, Barclays and Rothschilds helped them carry out a reverse takeover of a quoted company, Leigh Mills, so that they were able to go public, renaming themselves the Mountleigh Group.

Looking back, Mr Hall is sometimes amazed at their sheer gall. He says: "The wool industry was always dominated by nepotism, and this led to a desire to keep outsiders like us out. We just ignored all this. We didn't even think about it. We were naive, really. I always recommend the value of naivety. If you stay ignorant you never get smart enough to think that things cannot be done."

Amazingly, he really was able to keep up his music, teaming up with a violinist from his Royal College days to give lunch-time and evening concerts all over Britain. The violinist has not done badly for himself either. He is Mr Martin Milner, leader of the Halle Orchestra, and the pair still give a dozen concerts a year.

In his forties, Mr Hall took up another challenge, becoming a competitive dressage rider. However, it is in his fifties that he will almost certainly make a lasting mark on the face of northern Britain and beyond.

In 1983 he was chairman and joint managing director of the Mountleigh Group and was looking for something new to do. The group had already diversified successfully into property development and he decided that the time had come to branch out on his own.

He split with Mr Clegg and took some of his money out of Mountleigh to rescue Dean Clough Mill, a 1m sq ft complex of 16 buildings in Halifax—11 of them listed—which faced dereliction after Carpets International took over Crossleys and rationalised production to Kidderminster.

The empty buildings were a symbol of social and economic catastrophe. The Crossley family had supplied Halifax with many of its jobs, many of its mayors and a long succession of its MPs since time immemorial.

Mr Hall has refurbished the buildings and divided them up to create a thriving business community. The standard of design is excellent and has been enhanced by his creating a permanent gallery of contemporary art in large, public rooms around the reception area.

The 250 businesses there pay more than £200,000 a year in rates to the local authority, compared with £60,000 when Dean Clough was a carpet mill—and that is with only 60 per cent of the buildings so far occupied. Many of the businesses are expanding rapidly.

Ernest Hall is doing everything in his power to encourage them. Getting attitudes right is a key part of the process. He says: "If you are in business you never go round talking about your problems. Communities do the opposite, talking themselves into a spiral of decline.

"Instead we should be trying to create a spiral of success, which is what we are trying to do here at Dean Clough. We try to given people as complete an experience of life as it is possible to have, with the arts and leisure as well as work.

"While my life was going forward, I saw whole communities in the north going in the opposite direction. I saw young people losing hope.

"My parents were both half-timers in the mill when they were 11. We were so far down the social scale we could not afford to indulge in the luxury of defeatism. You could not get any lower than us. But by the same token, from where we were you could only go forwards.

"We were very poor but I never got the impression that we were struggling. They took responsibility for themselves and never believed the world owed them anything.

"Envy, bitterness and greed do nothing to help the individual. They destroy confidence and esteem. You need confidence, esteem and nobility. This is where the energy to achieve things comes from. I want to persuade other people that it's there for everyone to do it."

Ernest Hall: boy pianist to millionaire

The biggest single experiment

Active partnership involving whole city

ONE REASON WHY the West Yorkshire borough of Calderdale, centred on Halifax, was chosen for Britain's biggest single experiment in urban regeneration is quickly apparent when talking to Michael Ellison, the council's chief executive.

"We are not a soft touch in planning terms, but generally we want to see buildings being used, not standing derelict," he says.

The result is a willingness to support anything reasonable. "We like to say: 'The answer's yes. What's the question?'," Mr Ellison says.

So when Business in the Community was looking for somewhere to conduct its experiment, starting off with the right answer when the question had hardly been put gave Calderdale a flying start.

The experiment is known as a "one-town partnership." It works by persuading all sections of an entire community to pull together towards common goals of economic and social regeneration. If a formula can be found in Halifax and Calderdale, the pilot project will be replicated elsewhere under BiC's leadership.

The hope is to create jobs; to enlarge prospects for employment by the right training; to renovate the physical environment; to encourage the expansion of local businesses and tourism; and to attract inward investment.

BiC's role is that of an "enabler"—oiling the works, helping people learn faster by bringing in lessons from elsewhere, and plugging Calderdale in to BiC's national network of members, supporters and contacts.

The approach is not new because it has already worked successfully in the US, particularly in Lowell, Massachusetts, which faced decline comparable with Halifax's. Exchange visits by key people has ensured that the lessons and parallells are not lost.

"Active" partnership is the key, with no one sitting back and waiting for someone else to do the job. Although there has been some suspicion from some political quarters about working hand-in-glove with capitalists, Calderdale's partnership structure is now basically in place.

It involves nearly all sectors of the local community, as well as BiC's national sponsoring organisations—business, government, trade unions and voluntary and educational organisations.

The active support of two leading BiC subscribers—Halifax Building Society (which has its headquarters in the town) and Rowntree Mackintosh—has been another important factor. So has the enthusiasm of the local newspaper, the Halifax Courier.

A "Focus group" has been formed to help things run smoothly. This is made up of the three party leaders on the hung borough council, together with Mr Ellison and BiC's director of project development, Mr Richard Wade. Mr Wade left the BBC to join BiC especially for the Calderdale experiment.

Calderdale's problems stem largely from change in the textiles industry. Halifax was famous for Crossley carpets but takeovers and rationalisation saw the industry collapse in the town. Even so, unemployment is slightly below the national average at under 13 per cent, so the borough does not qualify for regional assistance.

There is no other option than for Calderdale to pull itself up by its own bootstraps. Indeed, it was already on its way as a result of the efforts of Mr Ernest Hall, a mill owner turned property developer, to bring Dean Clough, the 1m sq ft of disused Crossley factory buildings in the heart of Halifax, back from the dead.

Riverside walk at Hebden Bridge, created as one of Calderdale's environmental improvements

Dean Clough is now a thriving community of hundreds of businesses, most of them small but growing. It also houses Calderdale's enterprise agency and its business and innovation centre. A Government-sponsored design consultancy is setting up there and it is also where Mr Wade has his local office as he divides his time between Calderdale and BiC London headquarters.

Plugging into BiC's national network is already bearing fruit, bringing Calderdale to the notice of people who would never have thought of going there with specific projects.

They include a charitable trust looking for somewhere to set up a children's museum, and a property developer persuaded by BiC to look at a derelict site near the M62. The site may be transformable into a business park—provided the right combination of private sector vision and Government help with site preparation can be found.

Critical to the whole Calderdale partnership has been the development of a strategic overview of what needs to be done and what action must take place if objectives are to be achieved. This means that things are not being tackled willy-nilly and without a general thrust, as is often the case when different agencies act separately from each other on a project-by-project basis.

The partnership has therefore set about identifying opportunities for investment by local as well as national and international companies.

It has sorted out a list of larger environmental projects which would benefit from government support or business partnership—and local schemes which might actually happen if there were community action or partnership with business. Possible schemes which need further thought, or feasibility or consultancy studies have been identified.

Mr Wade says: "The aim is to work in the widest possible consultation with interested parties and existing organisations, whether business, council, voluntary sector, community groups, government departments or whoever."

Just arranging an introduction to the right people—which BiC is well placed to do in many instances—may be all that is needed to get things moving.

Rowntree Mackintosh has pitched in very tangibly with money, lending Calderdale £200,000 interest-free to set up a revolving fund for refurbishing frontages and making the impressive Victorian architecture look grand again.

The money will be lent at low interest rates in sums ranging from a few hundred pounds to £10,000. Individuals, businesses and bigger companies can apply. Normal repayment will be within five years, with the repaid sums and the interest being used to fund more projects.

Eventualy, when the fund has grown enough, Rowntree Mackintosh will get its money back.

Other aspects of the experiment will see the Burton Group lending a team of strategic planners to advise on commercial strategy for the borough; London property developers being introduced to possibilities in the area; and venture capital funds—particularly the West Yorkshire Enterprise Board—looking at how to finance growing businesses.

The experiment was first announced last December by Prince Charles at BiC's annual general meeting. He launched it formally in February. The question now is how soon it will be before other partnerships are launched elsewhere.

The original idea was that the lessons would be obvious within a year but this may be optimistic. Calderdale is still learning, and the short cuts that will help other places get things off the ground more quickly have probably yet to emerge as formulae that can be copied easily elsewhere.

Not everywhere has an Ernest Hall to lead by example, or a borough chief executive with such a direct manner, or politicians who, mostly, are willing to work together, or supportive, big private sector employers like Halifax Building Society and Rowntree Mackintosh.

The first lesson may well be that partnership has to be worked at and progress striven for. The starting point seems to be to have as many people on the same side as possible from the outset, whch was another important reason for choosing Calderdale for the experiment.

How to do it elsewhere, probably in much less favourable circumstances, is what the Calderdale experiment has to teach the rest of Britain.

Ian Hamilton Fazey

Challenge for managers

Continued from Page 11

In the early 1980s a slight stigma was attached to secondment as it came to be regarded, in part, as a means of cushioning redundant or early retiring executives from the trauma of ending employment.

Slowly the picture is changing, though, as companies and community organisations take a more professional approach. ARC hopes to speed up this process by establishing a special secondment programmes unit headed by Andy Powell, formerly a project manager with IBM, one of the companies traditionally most involved in secondment.

One idea is to make secondment more flexible as some companies look askance at detaching key personnel for two or three years. ARC is looking at 10 to 100-hour secondment assignments for special projects.

One big drawback with short attachments, however, is the loss of the major benefit companies seek—exposure of staff to a world outside the big company culture.

"In the last few years companies have become much more professional in their approach. Secondment is increasingly being seen as part of the overall training programme," says Robert Davies, BiC's deputy chief executive. "We believe the whole future of secondment depends on getting really good matches between the individual and the needs of the local community."

Examples of recent developments are accountants Peat Marwick McLintock's initiative which provides £250,000 worth of consultancy advice to small businesses, and the use of senior managers by John Laing, the construction company, and Whitbread, the brewers, to try to recruit youngsters in the East End of London. The motive is clearly as commercial as it is charitable and it is here that the future success of secondment lies.

Brian Wright, director of the London Enterprise Agency which has 13 secondees, believes that the key lies in how the company uses the experience gained. "If proper re-entry is planned and full use is made of the invaluable experience of the outside world, the future looks good," he says.

Richard Evans

SECTION IV

FINANCIAL TIMES SURVEY

The process of deregulation has accelerated, bringing Spain's system into closer line with the rest of Europe. Some banks are strengthening their foreign services while others are reinforcing their links with foreign institutions, as **David White** reports.

Accelerating to the future

IT HAS been a bumpy but quite exciting ride. Some of the rolling-stock is old and heavy, but what is left of it is in fairly robust shape. On downhill stretches the authorities have let the brakes off.

This has caused some palpitations, but otherwise the banking community—the travellers in this rollicking railway metaphor—have been enjoying the experience.

The process of deregulation in Spain's financial sector has accelerated in the past few months, moving with the international trend towards more free-for-all markets. In some respects, it would seem as good a moment as any to expose the banking and securities industries to more open competition.

The crisis affecting smaller banks is little more than a bad memory, and recent profits have been almost embarrassingly fat. But the changes have come at an otherwise rather unsettled period.

Since the beginning of the year, Spain has been through a long and bitter series of labour disputes, which threatened to undermine some of the Socialist government's economic targets.

Signs of overheating in the domestic economy have coincided with a sharp deterioration in the trade deficit in the second year of Common Market membership.

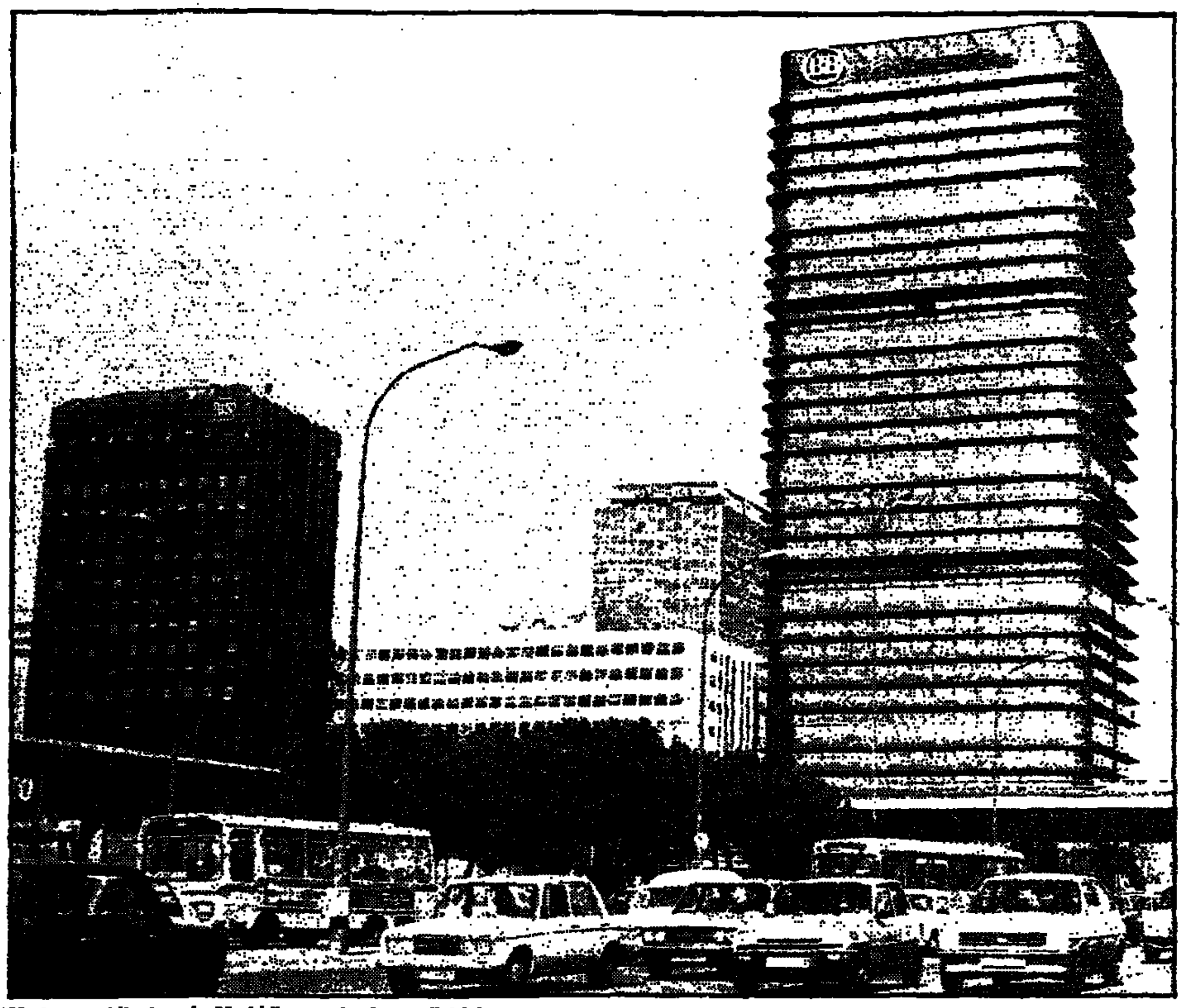
And foreign bankers' love affair with Spain met a hitch in the form of a debt crisis at the Fecsa electrical utility, in a few cases quite shaking their confidence.

Spain's financial sector is a faithful reflection of the country itself: in some ways impressively advanced, but still not fully in the European mainstream.

The process of liberalisation, making the system more flexible, less compartmentalised and more internationally-connected, only really began at the time Spain's democratic institutions were set up 10 years ago.

This year has seen decisive steps to reduce direct government interference in the banking business. The last remnants of a fixed interest-rate structure, affecting sight and short-term deposits, were scrapped.

Some small and foreign banks were already bypassing the limits with special chequeing accounts. Now interest-bearing current accounts are standard. In compensation to the big banks, which said they could otherwise not withstand the cost, the authorities released a large part of the funds tied down in compulsory government-directed investments.



Modern architecture in Madrid's new business district

Until now, the policy on these "privileged financing circuits"—safe but boring business for the banks—was to reduce them gradually. Apart from a 10 per cent slice of banks' deposits devoted to Treasury Bills, compulsory investments at the time of the change took up a further 19 per cent.

Without fully satisfying the banks, this has been sliced to 1 per cent. Again, it was partly a matter of adjusting the rules to reality, since a number of banks that were caught up in the crisis and since then have become part of bigger groups already enjoyed exemption from the compulsory deposit rules.

Recent liberalisation measures have also affected export finance, in which foreign banks are not entitled to interest-rate subsidies on their peseta credits, and capital movements, in which the Government has moved a step ahead of the requirements laid down in its EC entry agreement.

Spain

BANKING AND FINANCE

Exchange controls and limits on portfolio and property investment abroad have been relaxed, and foreign investment rules eased further.

As echoes of London's Big Bang reverberate across the continent, Spain's stock markets are due for a French-inspired reform in which the current broker establishment will make way for brokerage companies.

The *bolsas* which outperformed all other stock markets last year, have already been through a series of innovations, and can soon be expected to admit foreign stocks.

The government debt market is also being transformed by an electronic "book-keeping entry" system, taking business out of the hands of brokers in order to obtain greater cost-efficiency, widen the range of treasury instruments and develop the secondary market.

However, Mr Mariano Rubio, the governor of the Bank of Spain, made clear at a recent Spanish-British seminar that further progress towards liberalisation was contingent on two conditions.

One was Spain's ability to restrain its budget deficit, which considerably overshot its target last year of 4.5 per cent of gross domestic product. The other was a continuation of strict monetary policy in order to keep Spain's adaptation process under control.

Last year monetary growth was kept pretty much to target. This year the Bank of Spain has been grappling furiously to keep it from getting out of hand. With a surge in domestic demand, which has taken over as the main motor of economic growth, widely-defined money supply started running at twice the programmed rate.

This was set at 8 per cent for the year, with a target for consumer price inflation of 5 per cent. The banking authorities tried to douse the fire by pushing up short-term interest rates, with the result that inter-bank rates shot up from under 12 per cent at the end of last year to a peak of over 20 per cent in May, and the recent trend of declining borrowing costs for companies was halted.

But this method only caused further combustion, attracting hot money from abroad and putting upward pressure on the peseta, which was the last thing Spain needed when its trade performance was going through the floor.

Further buckets of water were thrown on: two successive rises in banks' reserve requirements to 19.5 per cent of deposits, application of reserve requirements to their convertible peseta accounts, which had risen spectacularly, and a ban on remunerating large convertible accounts. The pressure, and interest rates, have since eased a little.

The inflow, combined with the foreign investment boom which Spain has been experiencing since it joined the EC, has pushed foreign exchange reserves up to a record \$20.5bn in May—an increase of \$4.5bn since the beginning of the year. This is despite a reduction in the current account surplus, which surged by \$2bn to \$4.6bn last year.

It has been a year of unforeseen events for Mr Felipe Gonzalez's administration. But for all the upsets—the monetary problems, the unexpected virulence of the student and labour movements, the hard-fought wage settlements, or the Socialist party's local election setbacks in June—there is no sign of any major change in the government's economic policies.

Its target of 3 per cent growth, after coming under some doubt, appears to have been confirmed, and inflation, well over the EC average last year at 8.3 per cent, is not expected to be far above the 5 per cent objective.

In the financial sector, the government foresees a "gradual but steady rhythm" of further deregulaton and competition has become noticeably sharper.

The battle for customers should reduce the scope for profit growth this year. Last year, pre-tax earnings of commercial banks rose 20 per cent overall, helped by a reduced need for loan provisions and the fact that only seven Spanish banks and five foreign banks showed losses.

In their efforts to adjust to open EC competition after 1992, all the main domestic banks, as well as those foreign banks that have bought full-scale retail banking operations, share a basic problem—overstaffing.

According to the Spanish private banking association (AEB), commercial banks have more than16,000 branches, more than their counterparts even in the UK, and 169,000 staff, the most of any Community country. Scope for cutting banks is limited, given the militancy of the unions.

Jobs are one of the obstacles to more far-reaching mergers in the Spanish banking industry, where the biggest bank only just makes the world top 100, with assets amounting to less than a quarter of the main British, French or West German banks.

Spain's banks are facing up to the EC challenge in different ways. Banesto, the least international of the big groups, is thinking of strengthening its foreign side.

Others are reinforcing links with foreign banks.

They have already become accustomed to foreign bank competition on their home market. From four foreign banks a decade ago the number with branches has risen to 40, with 10 other banks under foreign control.

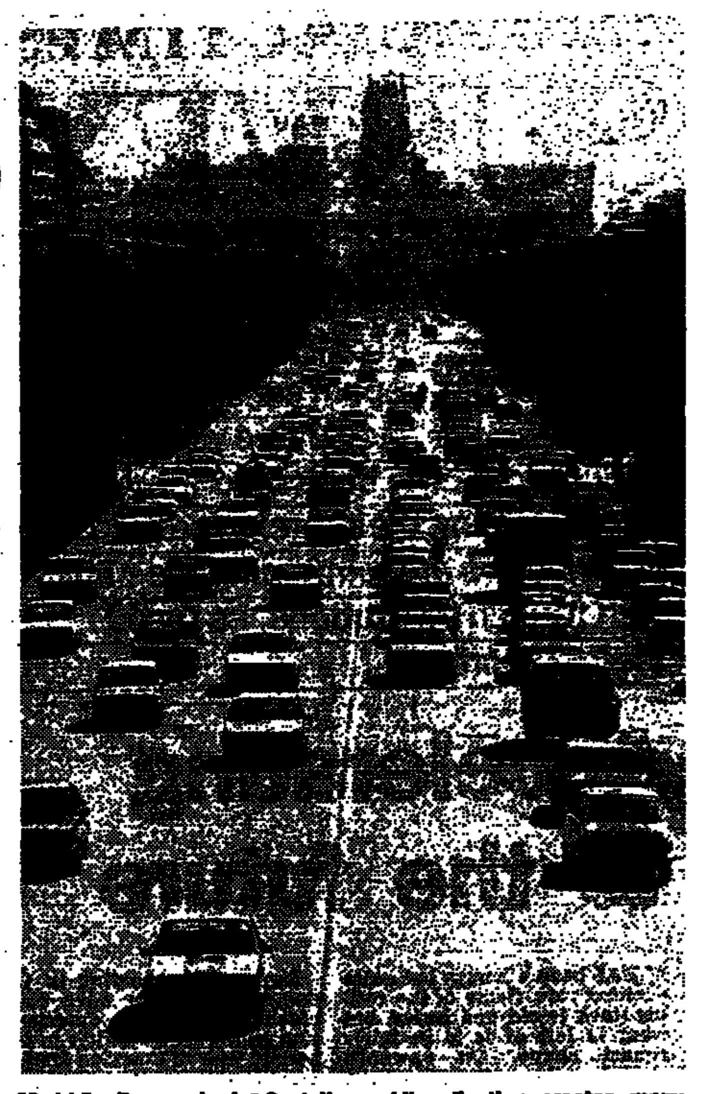
In few European countries do foreign banks have such a visible presence on the retail side as Barclays or Citibank in Spain. In order to limit further expansion during the EC transition period, the main Spanish groups have reached a pact with the Bank of Spain not to sell any of their subsidiary banks to foreigners.

And, echoing the fears expressed in other countries that deregulation could give foreign institutions a dominant role, Mr Rubio has warned that the authorities would look badly on foreign attempts to establish control over any Spanish bank.

CONTENTS

David White explains how the big private banks are revising their extensive networks

Modernisation brings changes at the top



Madrid's Poseo de la Castellana. Liberalisation creates many opportunities for the banks

THE BIG SEVEN in Spain are not the Seven Deadly Sins—although in the popular imagination there may be some correlation—but the seven main private—sector banks.

The image of a closed banking oligarchy is fixed in the public mind by the famous luncheon meetings which the bank chairmen hold once a month. In reality they are eight, including the state—controlled Banco Exterior, now headed by the former Socialist Science Minister Mr Miguel Boyer. But the idea of "Los Siete Garndes" has more resonance.

A cartel? Sometimes the banks wish it was, but they have never really succeeded in enforcing one, such is the rivalry between them.

What is remarkable about them is not so much the fact that these banks with their subsidiary groups concentrate over 80 per cent of commercial bank deposits and 48 per cent of the whole system including savings banks, but that in an economy the size of Spain's there should be seven of them with such large networks.

Most European countries have between one and five banks that tower over the others. In Spain the power is relatively spread out. In the world list drawn up by The Banker, the seven occupy places between number 100 and number 213. On an international scale, they are seven dwarfs.

Acquisitions of banks crippled during the country's 1978-83 banking crisis enabled the big groups to extend their hold on the market through affiliated networks. Together with Banco Exterior, which has built up its retail side to compensate for competition in its export finance activity, they accounted for 64 of Spain's 97 registered domestic banks at the end of last year.

However, the process of concentration has gone no further. The Franco regime which ended in 1975 was hostile to big bank mergers. Mr Jose Angel Sanchez Asiain, chairman of Banco de Bilbao, advocates concentration between major banks for the sake of efficiency, but his is a lone voice.

Mr Jose Maria Lopez de Letona, due to take over as chairman of Banesto, Spain's biggest branch network, argues that "efficiency is not necessarily a problem of size." Other bank heads use the argument of safety in numbers: with fewer superbanks, they say, there might be more temptation on the Left to seek nationalisation.

Top eight commercial banks

(Non-consolidated, Pta bn)

	Assets end 1986	Deposits end 1986	Pre-tax profits 1986	Pre-tax profits 1985
Banco Central	2,619	1,923	26.62	19.06
Banco Espanol de Credito	2,465	1,901	—	22.55
Banco de Bilbao	2,201	1,494	24.97	17.76
Banco Hispano Americano	2,110	1,466	13.02	8.25
Banco Santander	2,048	1,158	23.51	18.41
Banco de Vizcaya	1,696	1,089	24.10	16.94
Banco Popular	1,062	809	18.30	15.64
Banco Exterior	2,110	685	7.46	5.98

Source: Consejo Superior Bancario

Until recently, the big banks appeared to be out of step with the rejuvenation of post-Franco Spain. But the image of an entrenched gerontocracy is being rapidly dismantled. In the early 1970s Mr Sanchez Asiain, a new breed of banking technocrat, had been appointed at Bilbao when he was 45, followed by Mr Luis Valls at Banco Popular, but most of the changes at the top have taken place in the last four years.

The average age of the Big Seven chairmen has come down in that period from 68 to 62. It will drop to 61 when Mr Pablo Garnica, who is 77, leaves the Banesto chairmanship in December. Bankers are unlikely in future to hang on grimly in office as Mr Garnica's predecessor, Mr Jose Maria Aguirre Gonzalo, did until he was 86 (even then, leaving reluctantly), or Mr Emilio Botin Senior, who left Banco de Santander at the age of 83.

Attitudes at some of the more staid institutions have evolved rapidly, too. When Spain joined the European Community last year, nobody would admit to alarm about the prospect of open EC competition after 1992—but some striking changes are taking place.

Banks are smartening up their image to counter the assault of foreign competitors such as Barclays. Santander, the only family-controlled big bank, has dropped the particle "de" from its name, is fostering a new group image, and is changing the signs at its branches to incorporate a new symbol (a stylised torch) at a cost of some Pta1m apiece.

Banesto, once so austere and serious, has now followed with its own new logo, featuring a Miro-inspired letter B in bright red, blue and yellow—it could be a snazzy clothes label or the masthead of a pop-culture magazine. Hispano Americano runs advertisements aimed at "post-modern" youth and has even launched a special young people's banking venture.

Differences between the banks have been accentuated, and their performances are no longer predictably uniform. Instead of one group of seven, they divide broadly into two groups.

On the one hand are the traditional three biggest, Central, Banesto and Hispano, distinguished from the others not so much by their size (Hispano has in fact been overtaken both as an individual bank and as a group, in terms of its deposits, by Banco de Bilbao, with the Vizcaya group not far behind) but by their problems, and on the other hand the four more nimble banks, which have been quicker to modernise their management and clean up their risks.

Hispano's troubles erupted at the end of 1984, mainly involving recently-acquired industrial banking interests. In 1982 it had picked up Bankunion, a casualty of the banking crisis. This turned out in retrospect to be a mistake, because it did not exempt Hispano from taking charge the following year of Banco Urquijo, a prestige bank with which it had longstanding ties and which was on the verge of disaster.

The two subsidiaries were merged, but matters started getting worse. Hispano had to set aside all its operating profits for 1984 and drop its dividend—an unprecedented step for a big Seven bank.

The new chairman Mr Caludio Boada, installed with the approval of the Government and the Bank of Spain, set about negotiating a Pta50bn ($394m) rescue package for Urquijo Union, bringing in the other main banks. Obliged, in Mr Boada's words, to "renounce a certain degree of comfort," it sold the new tower block it was building for its head office, and divested holdings in companies requiring "agile management."

With a changed team, Hispano has switched the emphasis back to the retail side, going for small accounts in an effort to outstrip ambitious foreign banks, trying to make the most of a big customer network and its international connections through the Europartners link-up (with Banco di Roma, Credit Lyonnais and Commerzbank, the latter having a 10 per cent stake in Hispano).

Mr Boada says that the bank is now moving back towards "adequate" profits and that Urquijo Union has "ceased to be a worry."

Banesto's difficulties came to the surface last year when it began to face up to a crisis at its Barcelona-based affiliate Banco Garriga Nogues. This crisis was itself mainly the result of a fiasco at an agribusiness venture called Quash in south-east Spain, where a project to bring in foreign investors fell through.

Losses at Garriga Nogues amounted to Pta73.8bn ($581m), a colossal sum for a bank whose assets never exceeded Pta190bn. Banesto managed to keep paying dividends but its profits for 1986, after reaching Pta22.6bn before tax the year before, were wiped out completely by a "once-and-for-all" clean-up operation.

Under Mr Lopez de Letona, who became Banesto's strong man last year, it has sold off industrial interests—including a pulp company, a steel company and a stake in the Domecq sherry business—and bank holdings. It expects to resume profit growth with a pre-tax result of about Pta30bn this year, compared with zero for 1986.

With its enormous network of 2,200 branches, it is beginning to show a new aggressivness.

Banco Central, with a narrow lead over Banesto in terms of deposits, also had to come to the rescue of an affiliated bank, Banco de Valencia. But Central, which has long shared with Banesto a reputation for being impenetrable, is a case apart. It has kept its head well above water, with a 40 per cent rise in its pre-tax profit last year to Pta26.6bn, and all but one of its 11 banking subsidiaries in Spain and Latin and North America — including Banco de Valencia — ending the year in the black.

But it is regarded as having failed to renew its intermediary management in the way that other big banks have. It continues to be run as a one-man show by Mr. Alfonso Escamez, who worked his way up from a humble clerical post and who at the age of 71 intervenes in all decisions.

All these three have appeared up to now somewhat lumbering, awkward creatures next to the Basque banks, Banco de Bilbao — which has raced ahead of the bigger institutions in the income from banking services — and Banco de Vizcaya. Both of these banks, which split their head office operations between Bilbao and Madrid, have been performing strongly, with increases of 38 per cent and 37.5 per cent respectively in their net profits last year.

Banco Santander, through a smaller group, is the country's most heavily capitalised bank and a technological leader in areas like home-banking. With its purchase in May this year of Bank of America's West German subsidiary CC-bank, it also now controls Spain's biggest foreign branch network, and is the first Spanish institution to enter the domestic banking market in another European country.

Like Banco Central, it has been eager to place its shares on the main international exchanges including London and now New York.

The victim of a rumour campaign four years ago, centering on its loans to Latin America, Santander has been cutting its exposure to a degree that makes it rather an exceptional case among international banks. At the end of this year's first quarter, its $233m cross-border risk was two-thirds covered by provisions and the bank's aim is a zero net risk by early next year.

Banco de Vizcaya and Banco Popular have also made foreign loan provisions over and above the increasingly stringent requirements set by the Bank of Spain.

Banco Popular, smallest of the Seven, is the one that comes closest to being a pure commercial bank. Now more than 30 per cent in the hands of foreign investors, it used to be alone among the big banks in making itself fully transparent, publishing quarterly results well before anybody else.

The banks all now have outside audits and publish consolidated accounts—Banesto for the first time this year. Standards of transparency have increased apace, although at places like Banco Central old habits die hard. When it sold a block of its own shares to the Kuwait Investment Office, Central issued a press release omitting details of the transaction or the identity of the buyer and attributing the information to "Barcelona stock market sources."

One result of the new accounting standards has been to clarify the relationships between the top banks and their affiliates, which in some cases were less than limpid. Policy towards these "second brands"—a slight misnomer, since some of them are 11th or 12th brands—has been subject to reconsideration.

Banesto, with a clearly-stated strategy of divesting banks and participations that serve no clear purpose within the group, has sold the small Banco Trelles and a 30 per cent stake in Banco Guipuzcoano, intends to sell its half share in Banco de Ibiza, the family bank of European Commissioner Mr Abel Matutes, and has grouped branches of different subsidiaries to form a new unit in Catalonia, Banc Catala de Credit.

With other groups, the future of "second brands" is less clear, however.

Banco Popular has just consolidated five regional banks, which were up to now controlled by an independent holding unit, Popularinsa—a set-up dating back to the late Franco period when it was conceived as a defence mechanism in the event of a future nationalisation programme. In the end, to regain control, Banco Popular had to buy out the March group which had cornered 20 per cent of Popularinsa's stock.

Other banks such as Santander aim to keep "second brands," either as distinct merchant banking operations or as useful regional names, while Hispano Americano has denied wanting to sell Urquijo Union now that it is out of trouble.

Nonetheless there are at least half a dozen names which are obvious candidates for sale—although the possibility of selling them to foreign banks is temporarily blocked under a recent agreement between the Big Seven and the Bank of Spain.

Vizcaya, which has 11 subsidiary banks, had a project for setting up a joint venture through one of them with West Germany's Dresdner Bank. In the event, Dresdner got cold feet about the scale of the venture Vizcaya was thinking of, and the plan fell through. Under the new pact a plan of this kind would now be ruled out.

The sector has closed ranks to allow no further openings for foreign banks to extend their role as deposit-takers during the period of transition towards an open market. The message is that competition is going to be tough enough as it is.

David white

Profile: Pedro Toledo

Successor making his mark

IN ALL THE recent changes at the top of Spain's big banks, the smoothest has been at Banco de Vizcaya, and of all the chairmen, the smoothest is the stylish Pedro Toledo.

Mr Toledo, 51, was named last September as successor to the 68-year-old engineer Mr Angel Galindez, and officially took over in January. His entitlement to the top job was never in question. The bank already shows his mark — and not only the bank.

Among the people to have worked under Mr Toledo, picked by him, are Spain's current Socialist Economy Minister, Mr Carlos Solchaga, and the chairman of the vast INI state holding group, Mr Claudio Aranzadi.

An economist from Bilbao's Deusto University, Mr Toledo joined the bank 19 years ago from what was then the Spanish subsidiary of General Electric of the US, to head Vizcaya's planning and control operations. He had been managing director of the bank from 1978 and deputy chairman since 1983.

Responsible for creating the closely-knit team which characterises the way Vizcaya is run, Mr Toledo has played a key role in the bank's recent development, cutting the burden of industrial risks which weighed it down in the mid-1970s, promoting treasury management, and building up a financial group around the parent bank.

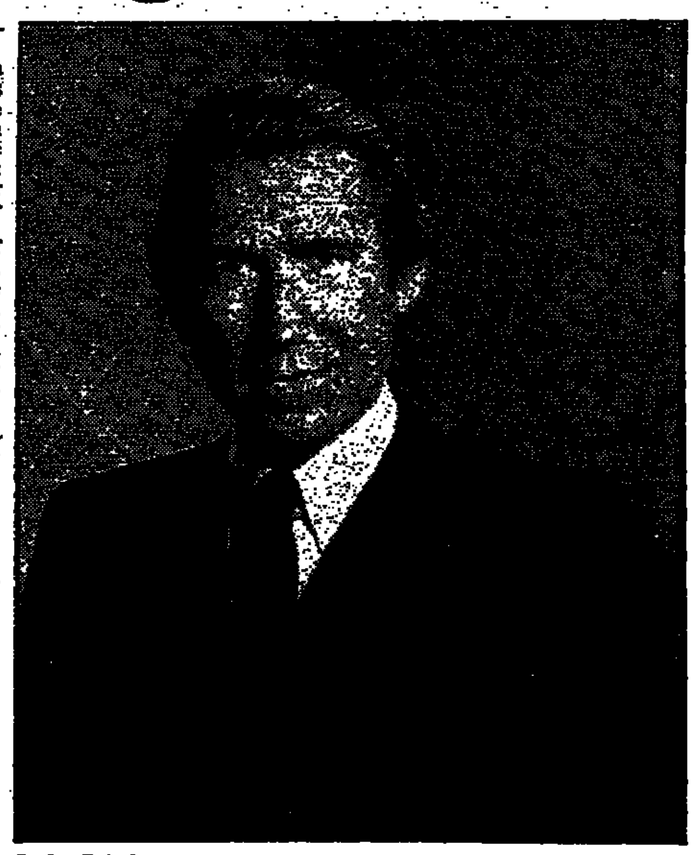
Banco de Vizcaya, sixth largest bank in Spain, accounts for under 60 per cent of the group's total deposits, which means that its subsidiaries have considerably more weight than is the case with any of the bigger banks — whether in relative or absolute terms.

Since taking charge in 1980 of Banco de Credito Comercial, former subsidiary of Banco de Granada and the first instiution to be released from Spain's "banking hospital," Vizcaya has been a regular client, eager to take on the challenge of rehabilitating crippled banks.

In addition to its two "national" operations, Vizcaya itself and the merchant bank Banco de Financiacion Industrial (Induban), it now has 10 other banks, including the newly-formed and evocatively-titled Canaribank.

In 1983 it headed a pool of banks to pick up the Barcelona-based Banca Catalana group, which had run into trouble the previous year, and in 1984 took it over on its own, turning it into the group's main bridgehead in Catalonia. And when the Government re-privatised 16 banks of the former Rumasa group the same year, it was Vizcaya that went for the biggest, Banco Industrial del Sur.

David White



Pedro Toledo: cutting the burden of risks

Profile: Emilio Botin

Showing a new self-confidence

THE BUILDING, with its central arch, set back on the boulevard facing the waterfront of Santander, has the solid aura of a grand hotel or a monumental railway station.

You have to look closely to see the name on it, but everybody knows what it is. In this town, Banco Santander is the least advertised bank, but its presence and that of the Botin family pervades the place.

Even the name Botin is superfluous. There is no confusion about who "Don Emilio" refers to—not unless it is qualified by the word "son," to the current chairman of the bank Mr Emilio Botin but to his father, a graceful but independent-minded figure who held the post for 36 years.

In the lobby of the bank's headquarters there is a statue to Don Emilio, put up by grateful shareholders in 1973 when he had been chairman for 23 years and was entering his seventies. As it turned out, however, he was not ready to retire until last year.

His son, Emilio Botin-Saenz de Sautuola y Garcia de los Rios, named to take over last November at the age of 52, is the third Emilio Botin to hold the job.

Set up in the mid-19th century on the basis of transatlantic trade passing through Santander port, it was little more than a provincial bank until Don Emilio Senior, receiving the stake held by *his* father, its first permanent chairman, began expanding further afield by absorbing other banks.

He founded the Bankinter industrial bank, now headed by another son, Mr Jaime Botin, bought control of Banca Jover and Banco Comercial Espanol and formed a banking group in Latin America.

Just how much control the Botins have is something of a mystery. In the bank's declaration of board members' holdings Mr Emilio Botin Senior, Mr Emilio Botin Junior and Mr Jaime Botin are shown as holding just 3m shares or 3.2 per cent of the capital between them, but that is hardly considered the full extent of the family's influence.

Doubts about the succession were not completely dispersed until the last moment. The new chairman, promoted from the managing directorship and now exercising both functions, started in the bank when he was 24 and has been on the board since 1960.

In the eyes of the banking community he still has to prove himself in his own right. But since taking over he is considered to have shown a new self-confidence, and the succession has coincided with a campaign to spruce up the bank's image.

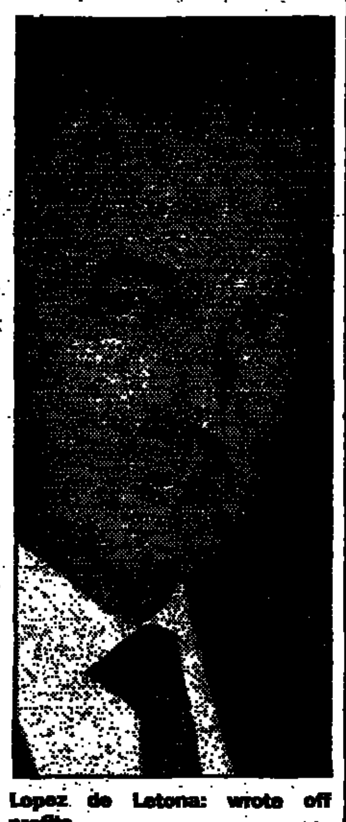
If you are called Emilio Botin, are chairman of the bank, and are married to Paloma O'Shea, concert pianist and patroness of a prestige international piano competition, there is not much further you can go in Santander.

Unless, that is, you have a daughter marry the city's best known native son, the golfer Severiano Ballesteros. It so happens that Santander is awaiting just such an event.

David White

Profile: Lopez de Letona

A strong man with answers



Lopez de Letona: wrote off profits

"FEW BANKS have confessed as much," said Mr Jose Maria Lopez de Letona y Nunez del Pino a few months after moving in as managing director of Banco Espanol de Credito (Banesto).

If Banesto, the bank with the biggest branch network in Spain, is like the Kremlin, then the arrival of Mr Lopez de Letona, who has been named to take over as chairman in December, was the *signal of glasnost.*

Journalists who had long regarded Banesto as an impregnable fortress penetrated it for the first time, as the new "strong man" came clean with the problems he had been charged with sorting out.

For his first year in an executive position in the bank he wrote off all its profits in order to bring the problems within the group — above all its Barcelona affiliate Banco Garriga Nogues — to a quick and definitive solution.

Banesto's 1986 report, which included its first externally audited, consolidated accounts, surprised not only by its lively presentation but also by its straightforward informativeness.

One of the men who has successfully navigated his way through the political transition in Spain—he was Minister of Industry under Franco and Governor of the Bank of Spain after Franco—Mr Lopez de Letona was appointed to the Banesto board in January 1986 after heading its subsidiary Banco de Madrid for six years.

In April last year he became vice-chairman and managing director, and was finally named chairman-elect last month.

His ascension has not taken place without some friction in the Banesto establishment. There was an attempted legal action by the family of the late Mr Ignacio Coca, whose bank was taken over by Banesto when Mr Lopez de Letona was at the Bank of Spain, and a controversy over the role played by Mr Lopez de Letona's son as intermediary in some of the bank's recent divestments.

And the way in which he hung out the bank's dirty linen caused discomfort not only inside Banesto but also in other Madrid banking circles.

Four families have long dominated at Banesto. Mr Lopez de Letona is well-connected, not politically out of line with the bank's conservative traditions, and certainly not the first ex-Franco minister to sit on its board, but unlike the outgoing chairman Mr Pablo Garnica, he is not of the Four Families.

A native of Burgos, he became an engineer and launched himself into politics in the 1960s as part of a new generation of technocrats.

The man he appointed when he was Industry Minister to head the state-owned INI industrial group, Mr Claudio Boada, is now chairman of Banco Hispano Americano. And the man he took with him to the Bank of Spain, Mr Mariano Rubio, is now the Central Bank governor.

It was with Mr Rubio's approval that Mr Lopez de Letona was put into the Banesto hot seat. Although he will be 65, he will be the youngest chairman Banesto has had for some time.

David White

Foreign banks

Dynamic and highly selective market

BARCLAYS MAY not have cornered the Spanish banking market but it has cornered a sizeable area of Madrid's busy Plaza Colon. The bank has bought a second building across the street from its Spanish headquarters, ensuring that blue Barclays signs now stretch far and wide over the imposing Plaza.

Like other foreign banks, Barclays opted for a high retail profile in Spain. In 1981 it bought the ailing 38-branch Banco de Valladolid, inheriting Pta12bn ($72m) in liabilities that were settled in full this January.

Barclays of Spain now has 70 branches including a bevy in busy resorts where the tourist and expatriate business is brisk, equity of more than $50m with 10 per cent now quoted on the Madrid stock exchange, a finance company, leasing company, securities company, asset management company and its wholesale Barclays International plc branch—the 1979 acorn from which Barclays'sprawling Spanish oak has grown.

In addition, Barclays pioneered high-yield current accounts in Spain with a 1986 invention, a money market account that paid 8 per cent interest. Now Spanish and other foreign-owned banks have joined the act and Barclays signs in the Plaza Colon advertise 9 per cent interest on current accounts.

Liberalised interest on current and term deposit accounts increased the competitive pressure for more current account customers who not only bring cheaper funds than the interbank market, now exacting a punitive 18 per cent interest, but are high-earning candidates for investment and other lucrative fee-earning services.

Competition, tougher and more inventive each day, is the name of the game in Spain. For the foreigners the challenge is relentless: the economy is changing rapidly, the days of easy margins and profits are over for wholesalers. Retailers, rowing against a powerful current of large, entrenched and increasingly efficient Spanish commercial banks and savings banks, fight for choosy customers and a good return on hefty investment in branches, technology and sidelines.

In this hot spring of 1987, the 40 foreign banks with wholesale branches in Spain are, with a dozen notable exceptions, starting to look like 40 characters in search of profit levels that please their mother houses.

The foreign wholesale contingent descended on Spain after 1979 when the law first allowed them a maximum of three branches. Only those who bought an ailing Spanish bank, of which a few languished in the bank hospital, could go into retail and expand their branches. Inevitably the American, British, French, German, Japanese, Belgian, Italian, Dutch and South American institutions that took the plunge sought, whatever their nationality, similar clients—Spain's large public sector, or multinationals and solid private enterprises.

Foreign banks chasing clientele which, through post-1979 innovation, can raise their own finances with commercial paper or bonds, or enter the booming stock market, might have less cause to worry about profits if their Spanish colleagues and rivals had not awakened lately to the possibilities of corporate lending, the attractions of syndicated peseta loans and the benefits of trade and export financing.

Not just the commercial banks but the large "cajas"—the savings banks that are switching from cautious repositories for your nest egg to aggressive late entries in the wholesale field—are giving foreigners who revitalised the wholesale market a sweaty run for their money.

The market, in short, is dynamic and highly selective. Of 40 foreigners, only four earned more than Pta 1bn ($6m) in 1986. Only 13 cleared more than Pta 200m ($1.2m). The Americans ran far ahead: Manufacturers Hanover Trust, Spain's major *foreign banker for generations,* pioneer of syndicated peseta loans, careful picker of prime corporate clients, again took the lion's share of profits: Pta 5.5bn ($33m)—a third of all foreign banks' 1986 profits and a 3.1 per cent return on assets, was hotly followed by the Bank of America, another long-time financier of Spain, lead manager of major operations, with a profit of Pta 3.5bn and a 2.4 per cent return on assets.

Next came Morgan Guaranty, whose profits sextupled between 1984 and the Pta 1.35bn in 1986, and Chemical Bank which nearly doubled profits from 1985 to last year Pta 1.03bn and 1.64 per cent return on assets.

Others in the top 10—Credit Lyonnais, First Interstate, Natwest (now partners with the Majorcan Bank March and expanding into retail), Dresdner, Sumitomo and Paribas—had to settle for profits of between Pta 824m and Pta 1bn.

The other 30 banks made a total profit of Pta 2.86bn in 1986, less than previous years. Foreign wholesale banks' market share dropped from its 1984 peak of 10.6 per cent, to 9.4 per cent last year.

This makes the running tough for newer arrivals such as Mitsui, Mitsubishi and Hong Kong Shanghai—but they are not losing heart.

Meanwhile, the market share of foreign-controlled retail banks grew from 3 per cent in 1983 to 5 per cent in 1984, 5.8 per cent in 1985 and 6.6 per cent in 1986. Their profits are improving as they wipe from their slates the losses they inherited from their Spanish acquisitions.

Sharing the foreign-controlled sector of the market with blazing-blue Barclays is Citibank, whose black and bright orange sign now hangs over 90 branches, with a lively growth of deposits in 1986; Chase Manhattan, striking out towards over 100 branches in the medium term; and Banque Nationale de Paris all building up their Spanish muscle.

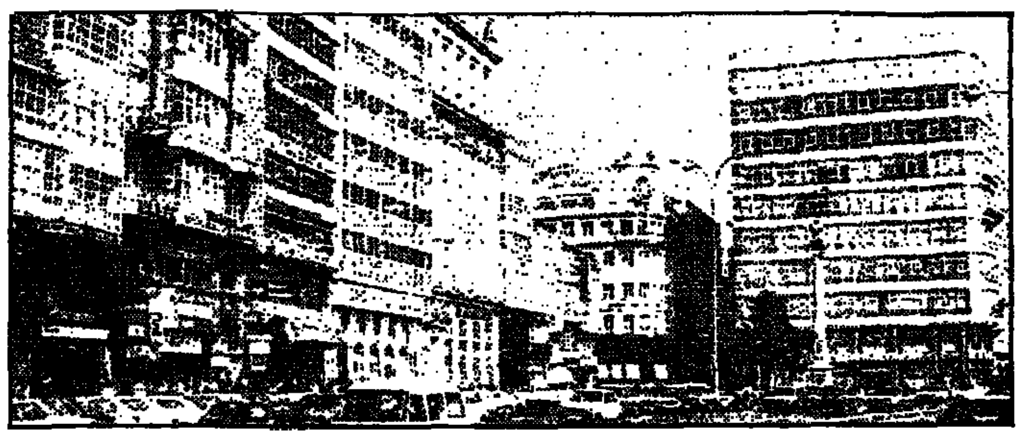
They function in an expanding economy where corporate profitability and individual incomes are reaching for average EC levels and consumerism is spiralling too fast for the authorities' taste.

Forays by many of the foreign banks into leasing, finance companies, portfolio management and stock market operations is a measure of Spain itself, pushing for recognition as a sophisticated market, investing and consuming massively. Gross fixed capital formation soared by 12 per cent last year, and independent economists forecast similar investment growth in 1987. Private consumpton grew by 3.6 per cent in 1986, the 1987 forecast is 3.6 per cent.

Aggressive competition by Spanish banks and cajas is part of Spain's modernisation, and a bid for all the elbow room they can give themselves after 1992 when EC banks will have no more restrictions on type or operation or number of branches.

With this wide-open door threatening them, Spain's big banks are not overjoyed to discover that a foreign bank, Manufacturers Hanover, is already Spain's 11th most profitable bank, and that the profitability ratios of several foreign banks exceed theirs.

Diana Smith

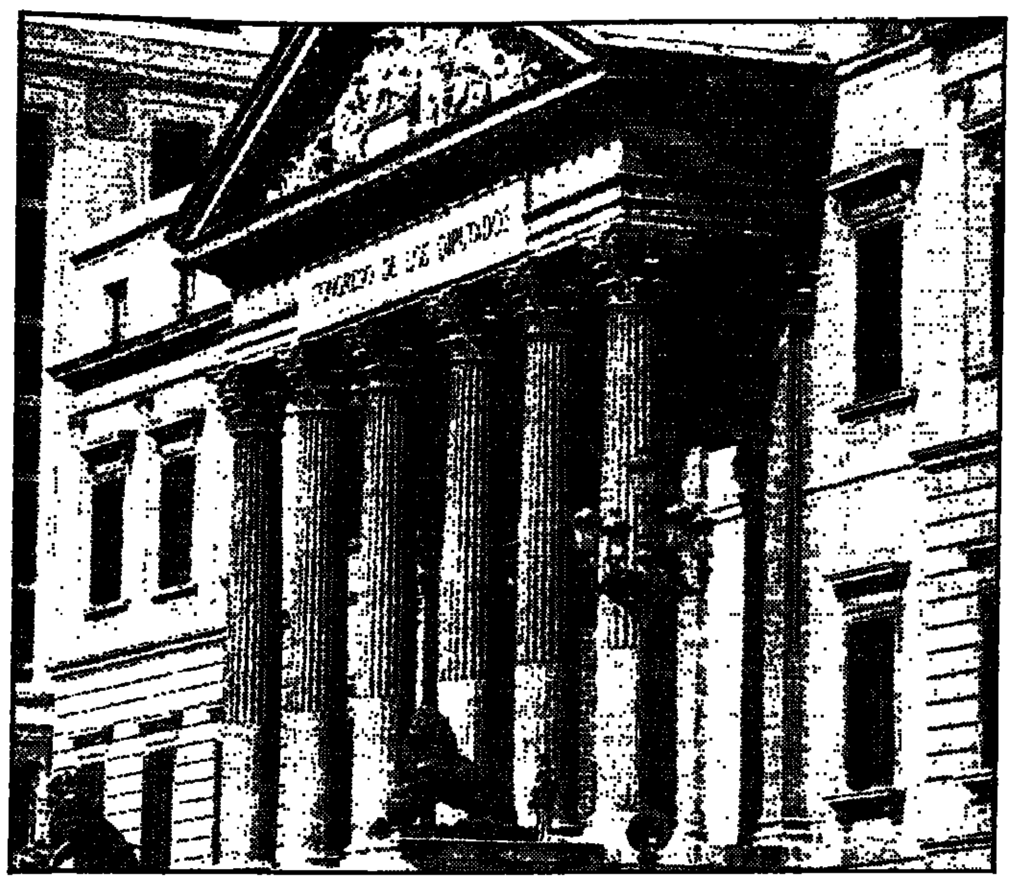


Ranking foreign banks

	First	Second	Third
Profit (31.12.85)	Manufacturers H. Trust	Bank of America	Morgan Guaranty
Profit (30.9.86)	Manufacturers H. Trust	Bank of America	Morgan Guaranty
Credit (30.9.86)	Credit Lyonnais	Manufacturers H. Trust	Bank of America
Return on assets (31.12.85)	Manufacturers H. Trust	Bank of America	First Interstate
Return on assets (31.6.86)	Manufacturers H. Trust	First Interstate	National Westminster
Total assets (30.9.86)	Credit Lyonnais	Manufacturers H. Trust	Bank of America
Profit per employee (31.12.85)	Manufacturers H. Trust	BNP	National Westminster
Investment/total assets (31.12.85)	National Westminster	Banco di Roma	Bank of Tokyo
Net profit/own resources (31.12.85)	Manufacturers H. Trust	F. N. Chicago	Bankers Trust

Foreign banks in Spain 1986

		1986 return on assets (average %)	1985 return on assets	Pre-tax profit 1986 (Pts bns)
1.	Manufacturers H.	3.12	2.96	5,537
2.	First Interstate	2.96	1.23	664
3.	Bank of America	2.35	2.08	3,513
4.	National Westminster	2.17	0.83	597
5.	B. Nación Argentina	2.09	—	83
6.	Chemical	1.64	0.99	1,123
7.	First Chicago	1.24	1.56	318
8.	Sumitomo	1.13	0.60	449
9.	Morgan Guaranty T.	1.00	0.78	1,351
10.	Desdner	0.76	0.39	493
11.	Midland Bank	0.66	0.59	292
12.	Banque Paribas	0.61	—	416
13.	Commerzbank	0.60	1.10	244
14.	Bank of Tokyo	0.58	0.72	398
15.	B. Estado de Sao Paulo	0.53	1.95	18
16.	Banco do Brasil	0.51	1.95	42
17.	Banque Indosuez	0.46	—	172
18.	Crédit Lyonnais	0.46	0.16	824
19.	Générale B. B. Belga	0.44	—	157
20.	Exterior Andes y España	0.44	—	119
21.	Deutsche Bank	0.43	—	222
22.	Barclays Bank	0.36	0.30	135
23.	Chase Manhattan	0.30	0.43	187
24.	Nazionale del Lavoro	0.29	0.61	60
25.	Banco di Roma	0.25	—	134
26.	Bankers Trust Co	0.25	—	164
27.	Continental I. Bank	0.17	0.64	127
28.	Citibank N. A.	0.14	0.16	51
29.	B. Nationale de Paris	0.13	—	70
30.	Comerciale Italiana	0.08	0.05	32
31.	Algemene B. Nederland	0.06	—	32
32.	Crédit Comécial e	0.06	0.11	56
33.	Société G. Banque	0.06	0.50	73
34.	Hong-Kong and Shanghai	0.03	—	6
35.	Banco Real	0.00	0.89	0
36.	Bruxelles Lambert	(0.19)	0.50	(25)
37.	Londres y Amer. del Sur	(0.42)	—	(515)
38.	Mitsui Bank	(0.76)	—	(59)
39.	Mitsubishi Bank	(2.01)	—	(144)



The Congress building. The government is still trying to get its interest rate sums right.

Interest rates

Getting to grips with monetary policy

MONETARY POLICY has taken centre stage in the Government's efforts to cool down the overheated economy, pushing up interest rates to record real levels and creating an enormous headache for corporate and bank treasurers.

Overnight money on the interbank market shot up from 11.7 per cent last December to 20.6 per cent in May and has since eased back to around 18 per cent.

Such steep rises have meant substantial losses on fixed rate bank loans to companies. Foreign banks in Spain have been particularly hard hit because most of them do not have a deposit base and rely on the interbank market to fund themselves. At the same time higher borrowing costs are jeopardising Spain's much-needed capital investment programme.

The Bank of Spain slammed on the brakes in March when money supply growth was running out of control. In March private sector liquidity grew at an annualised rate of 17.3 per cent, way above the target of eight per cent for the year.

Internal demand, which is now the driving force of the Spanish economy, grew at more than eight per cent in real terms in the first quarter, after six per cent in 1986. This was twice the rate of the rest of the EEC and the consumer and investment boom has dramatically pushed up Spain's trade deficit.

With the breakdown of the Government's wage guideline agreement and trade unions in a militant mood, the Economy Minister, Mr Carlos Solchaga, opted for monetary rather than a more politically unpopular fiscal policy as the weapon to safeguard the five per cent inflation target.

In fact, a large part of the money supply problem has been of the Government's own making. Many economists accuse the Treasury, and to a lesser extent the Bank of Spain, of gross mismanagement.

"The government's most serious mistake in economic policy was the Treasury's view at the beginning of the year that interest rates would drop," says Mr Luis Angel Lerena, head of the Banco de Bibao's research department. "And the coordination between the Bank of Spain and the Treasury has been poor."

With inflation dropping at the end of 1986, the Treasury assumed that interest rates were bound to follow suit. It misread the signals from the spurt in internal growth and fuelled the money supply by borrowing from the Bank of Spain rather than issuing debt at market rates. The Central Bank looked on helplessly.

"If you think in this way then you are not a proper member of the EEC," said one angry senior private Spanish banker. "Once you are part of a serious group of countries you have to pay the market rates."

The Treasury also made it more difficult for the Bank of Spain to have a clear idea of the money supply growth by making Treasury bills a haven for black money through exempting them from taxes. The Treasury saw this as a way to lower the cost of its debt.

The eight per cent yield is low, but there is an understanding that the taxman will not look into the holders of these investments.

There was an initial massive flow into Treasury Bills but then the rush became a trickle and the Treasury was reluctant to push up its costs by introducing a new instrument with rates more in line with the market.

Mr Mariano Rubio, the governor of the Bank of Spain, said in his annual review of the economy that such "spurious financial innovations offer no real benefit for the smooth running of the economy."

A repentant Treasury brought in a new instrument, Treasury notes, in June and in the first offer the interest rate was 15.5 per cent.

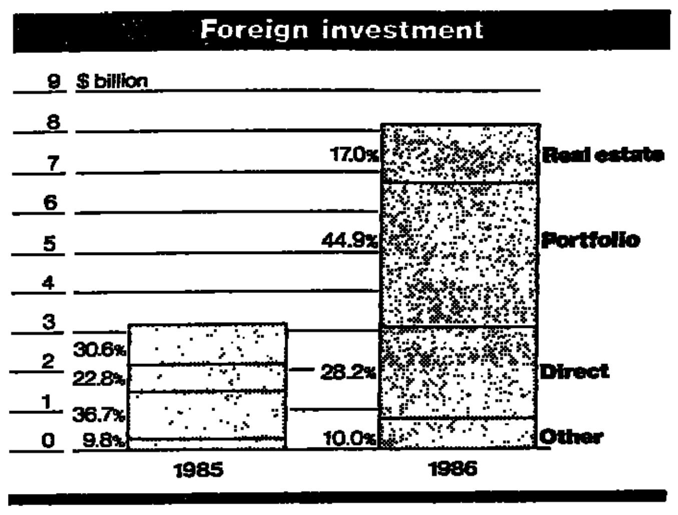
Attracted by high interest rates and a strong peseta, hot capital flows have been pouring into Spain. As interest rates rose in the earlier part of the year, so more hot money was lured to Spain, boosting the money supply and strengthening the reserves.

And the Bank of Spain's measures to discourage hot money by imposing reserve requirements on convertible deposits and ordering zero interest for deposits of more than Pta 10m does not seem to have had a great effect. Reserves rose by $1.8bn in May, bringing the total increase for the first four months to $4.2bn, compared with $339m in the corresponding period of 1986.

William Chislett

Foreign investment

Takeovers and sharp rise in capital inflows



IT HAS BEEN the year of the takeover. In the 12 months since Volkswagen bought control of SEAT, the only Spanish-owned car manufacturer, a wave of purchases by foreign companies has begun to make Spain look like a corporate discount store.

European Community membership and the lifting of most of the remaining restrictions on foreign investment have not only brought a sharp rise in the inflow of capital from abroad, but have caused an evident re-appraisal of the attractiveness of existing Spanish companies as targets. Intermediaries in the mergers and acquisitions business have struck a rich vein.

The vogue in takeovers marks a second shift in the emphasis of foreign investment in Spain. The first, in which companies started to be interested not only in establishing a foothold in the hitherto highly-protected Spanish market but in setting up manufacturing bases to supply EC markets, began 10 years ago.

Ford and later General Motors joined the French car companies that were already producing in Spain, but with factories geared mainly to exports. Japanese companies, looking to Spanish accession as a means of putting a foot inside the Community, also stepped up their investment, principally Nissan with its step-by-step takeover of the commercial vehicle company Motor Iberica.

According to Japanese government figures, Spain is the EC country with most Japanese direct investment in manufacturing, with $349m, compared with $275m in the UK.

Now, since EC membership, other EC countries have taken over the main investing role. Portfolio investment, led by British and West German institutions, soared with last year's stockmarket boom.

Net stock purchases by foreigners in Madrid multiplied two and a half times to reach Pta125bn ($1bn); property investment climbed 22 per cent to Pta200bn and direct company investment authorised by the Spanish authorities last year was 43 per cent up at Pta400bn—mostly from the EC (Pta289bn) and mostly in companies already existing in Spain, either through re-investment or through acquisitions.

The 18 months since Spain's accession have brought the two biggest foreign takeovers of Spanish companies. The deal Volkswagen signed with the Government in June last year over the formerly state-controlled SEAT involves paying Pta80bn ($630m) in a three-stage purchase, plus a further Pta57bn in planned capital increases.

The West German group now plans to spend some $3.5bn or more on new models and facilities including a new factory at Martorell near Barcelona.

This was followed in March this year by the Pta58.2bn takeover of Spain's leading drugs manufacturer, Antibioticos, by Montedison of Italy.

The deal spearheaded what seems to be a mass landing by Italian business in Spain. Italian interests have taken up positions in sectors such as tourism and foodstuffs, Mr Carlo de Benedetti is in the process of building up a Spanish holding operation, and media king Mr Silvio Berlusconi has been busy preparing the ground.

Fiat's civil engineering subsidiary Impresit has become a leading shareholder in Hispano Alemana, a construction company formerly owned by the Rumasa group and finally reprivatised by the government at the second attempt in April.

Another prominent source of investment has been the Kuwait Investment Office, with interests banking (the biggest single shareholding in Banco Central, Spain's number one bank) and the paper industry (through the Torras Hostech group, in which the KIO bought a minority stake last August).

British industry, which up to now appeared resigned to being the wallflower at the party, has also taken its share of the action. In the past year, BAT Industries subsidiary Wiggins Teape has bought a northern Spanish pulp producer, Celulosas de Asturioas, for Pta 8bn, Unilever has bought a sausage-maker, Industrias Revilla, for Pta 9bn, and Lancer Boss has bought the fork-lift truck operations of Fenwick for an undisclosed sum.

Already the main source of foreign portfolio investment, the UK, shot up to fourth place in the list for direct investment last year behind West Germany, the Netherlands and the US.

Prime targets for foreign companies include food and drink (for instance Nestle, which has been discreetly cornering the coffee-grinding business, or Heineken, which last year increased its stake in the leading brewery, El Aguila) and paper (where apart from the investments by BAT and the Kuwaitis, the US Scott group has bought a Pta 10bn pulp plant and plans to spend a further Pta 20bn to create what it claims will be Europe's biggest tissue manufacturing complex).

The spurt in takeover activity also reflects the authorities' eagerness to find partners for problem companies that have come under the wing of the state or regional governments. This is the case of several former Rumasa companies: the last major asset on the reprivatisation list, the Williams and Humbert sherry group, after a long legal wrangle over the Dry Sack trade mark, is being sold to a Venezuelan-controlled consortum.

It is also the case of Cerbero-Domar, a Catalan domestic applince group, which Electrolux-Zanussi is negotiating for. In some instances it is to replace other foreign partners: for instance the former ITT offshoot Marconi Espanola, part of which is to be hived off to a consortium involving AT and T and Philips' joint telecommunications venture.

In the badly overmanned electrical capital goods sector, an Italian-backed, British-registered company called Arbobyl now has effective control of the former subsidiaries of Westinghouse, General Electric and Brown Boveri as a result of pull-outs by all three groups.

But in other sectors the tendency of foreign companies, rethinking the nature and scale of their Spanish operations as a result of EC entry, has been to plough more money in—notably West German groups such as Daimler-Benz, Siemens, Robert Bosch and Nixdorf.

A third of last year's direct investment figure referred to purchases of shareholdings in Spanish companies, and more than half to fresh capital being pumped into Spanish subsidiaries.

The surge in EC investment has temporarily eclipsed the activities of US and Japanese multinations, but these continue to play an important role, particularly in government-backed projects aimed at bridging Spain's technology gap.

One such project, a fibre optics venture involving Corning Glass, has been put on ice, but AT and T is due to start producing custom microchips in a joint venture near Madrid by next year, and plans another Pta 4bn plant in northern Spain to make telephone transmission equipment. Fujitsu's computer affiliate in Malaga has been reorganised as a fully-fledged, majority controlled manufacturing operation.

In the motor industry, US and Japanese companies have also been reinforcing their presence. Nissan appears defnitely committed to its Motor Iberica subsidiary despite disappointment with heavy losses, and Kubota has embarked on a joint tractor venture with the Nissan unit.

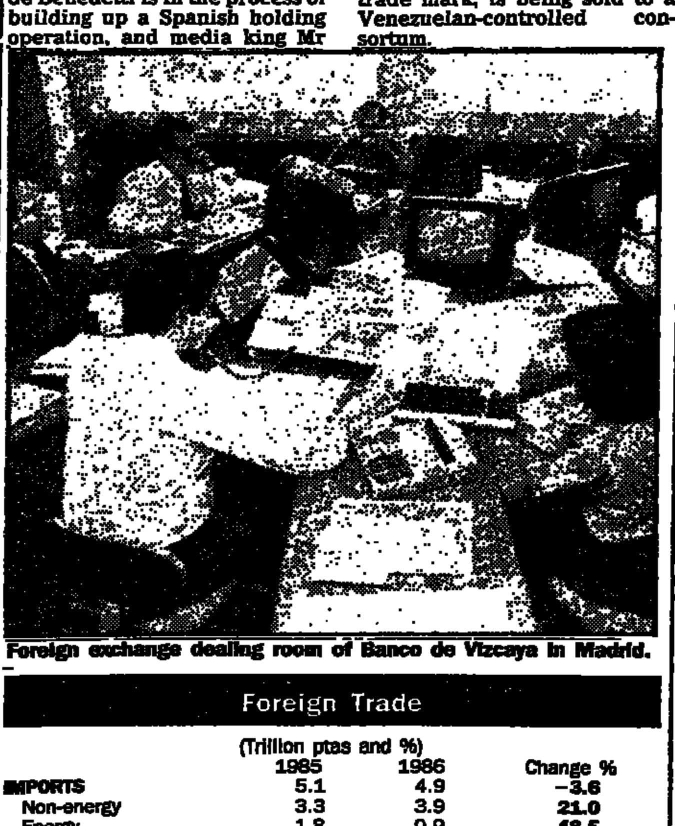
Suzuki has become a partner in Land Rover Santana, which now makes Suzuki runabouts as well as Land Rovers, and Yamaha has stepped up its holding in the Semsa small motorcycle company to a majority.

Rules for foreign investment were further liberalised last year, replacing standard authorisation procedures with "verification" measures. These apply to deals involving over 50 per cent of a company's capital. Foreign investors are free to repatriate profits, realise capital gains, use internal and external credit on the same basis as a Spanish company, and the limits governing "strategic sectors" are reduced.

Previous ceilings on foreign holdings in mining, hydrocarbons, refining, shipping and insurance have been lifted. Investments in gambling, air transport, defence and broadcasting are still subject to restrictions.

Under the private television Bill which the Government has sent to Congress, a hole will be blown in that monopoly, but foreign holdings in any of the proposed three new channels would be limited to 25 per cent. This is another sector where foreign interests are already lining up.

David White



Foreign exchange dealing room of Banco de Vizcaya in Madrid.

Foreign Trade

(Trillion ptas and %)

	1985	1986	Change %
IMPORTS	5.1	4.9	−3.6
Non-energy	3.3	3.9	21.0
Energy	1.8	0.9	−48.5
EXPORTS	4.1	3.8	−7.4
Non-energy	3.7	3.6	−4.3
Energy	0.4	0.2	−37.5
Trade balance	−1.0	−1.1	—
Coverage ratio %	81	78	—
Non-energy trade balance	0.5	−0.4	—
Coverage ratio %	114	90	—

Source: Banco Hispano-Americano

Foreign Trade Spain/EC

(Trillion Ptas and %)

	1985	1986	Change (%)
Imports	1.9	2.5	31.6
Exports	2.1	2.3	6.8
Trade Balance	0.3	−0.2	—
Coverage Ratio (%)	115	93	—

Deregulation

Faster and more transparent system

NOT THAT LONG ago the Spanish financial system worked a bit like a small, old-fashioned underground railway. Dimly-lit and creaking, it never travelled far grudgingly served customers who had no alternative, and through its main owners, controlled unpublicised sidelines in industry or elsewhere.

Came the end of Francoism and run-up to membership in 1986 of the European Community—and the system not only emerged into the light of day, it developed, through liberalisation, an impetus of its own.

Nowadays the system more resembles a busy, modern thoroughfare where the authorities are not oppressive central controllers but alert traffic policemen, making sure things keep moving at reasonable speed, without too many nasty accidents or risks to innocent pedestrians, and market operators are quickly acquiring advanced drivers' skills.

The first liberalisation, permitting after 1979 the competitive advent of wholesale or commercial foreign banks (only, in the latter case, if a Spanish commercial bank was purchased), was instrumental in forcing the Spanish financial system to run faster and on less smoky fuel.

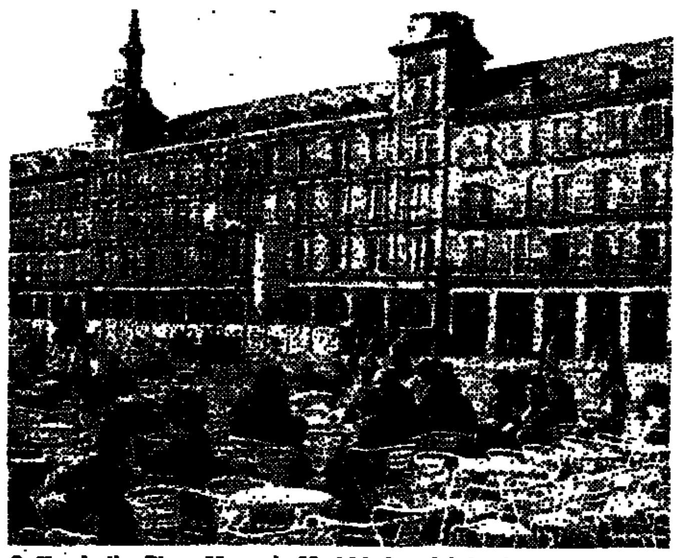
The move has been welcomed by Spanish and foreign commercial, wholesale or merchant banks, whose selected representatives have been working on proposals for an association since last November.

Meanwhile, overshadowing the money market is a side-effect of success: Spain's recent economic book and wage gains have sent private consumption racing. This is paired with expanding foreign productive, portfolio and property investment in Spain. The latter has generated a voluminous influx of foreign currency and a peseta stronger than the export-conscious authorities would like and, like heated private demand and public spending, shifted money supply into overdrive.

The authorities did not need this boom in M-4 (liquid assets in the hands of the public) just when they were starting to get inflation close to EC averages, and preparing the peseta for inclusion in the ECU in the next couple of years.

Seeing, in spring, their target of no more than 5 per cent inflation by December, they moved in to try to mop up the excess while pursuing liberalisation and encouraging productive investment. Not an easy juggling act.

The chance to hold money supply on a steadier course



Coffee in the Plaza Mayor in Madrid. Spanish business investment has increased almost 500 per cent

allows more impact for another recent act of liberalisation: drastic reduction in the immensely-unpopular "investment coefficients"—compulsory reserves of 13 per cent of commercial bank deposits and 17.8 per cent of deposits of cajas, or savings banks, which were delivered in the form of Treasury Bills to state activities: housing, bodies like the Official Credit Institute (ICO) which funds industry and export credit.

The coefficients were also disliked by a Bank of Spain not keen on what was basically a hidden tax, or subsidy, and far keener on institutions going openly to the market for their needs.

The compulsory investment coefficients have been pared to 1 per cent: the ICO has already been going to the market, with bond issues, for its needs and a new more transparent and flexible system of credits will be devised.

Transparency is the catchword of the Spanish financial system, 1987 version, and it is applied to everything from basic information through annual accounts to how the basic structures of a rapidly-changing system operate.

While export credits in pesetas or foreign currency regroup, liberalisation and transparency are highly visible in Spain's once fiercely-protected and often covertly-subsidised foreign trade system.

EC membership has blown the lid off and forced change. Tariffs have shrunk: before EC membership, Community tariffs on Spanish products were 5 per cent, Spanish tariffs on EC products were 14 per cent.

After membership, Spanish tariffs on EC products plunged to 1.4 per cent and the jungle of quota restrictions products is shrinking to a thicket: 65 cases after entry compared with 237 before, for EC products, and 140 cases after entry compared with 30 before, for Gatt products.

The labyrinth of sectors with hidden export subsidies or hidden import duties—52 of the former, 72 of the latter—has been forced into extinction by Spain's accession treaty. Spanish industry is learning to compete on its merits not on its government's coat tails.

The results are encouraging. Companies have increased production (up 4.1 per cent in the first quarter of 1987), many are cash-strong or are tapping the market not the banks, altering the texture of the financial market.

They are investing in their enterprises at home and, thanks to another stage of liberalisation, beginning to place funds abroad, albeit not at the hectic pace that EC, US and Japanese capital has flowed into Spain since accession.

In April alone, $5bn entered Spain, priming a current account balance that is under a heavy barrage from the consumer boom, capital goods and more expensive energy imports.

Spanish businesses have headed briskly for neighbours' patches—France and Portugal—seeking high-spending markets in the former and low wage costs in the latter, now an EC partner. Spanish business investment has increased almost 500 per cent compared with early 1986, and stock market operators are eagerly sniffing around the small but lucrative Lisbon and Oporto stock markets.

Spanish authorities, ahead of schedule, have eased controls on Spanish portfolio investments abroad: individuals may invest up to Pta5m ($30,000) in stocks and bonds outside Spain.

Institutions may invest up to 30 per cent of capital plus reserves without having to request official authorisation, whereas before Spaniards could invest abroad only in paper issued by Spanish institutions. Purchases of real estate outside Spain remain subject to official authorisation, however.

In 1993 all EC transitions expire in the area of capital flow and right of establishment. So that the Spanish financial system does not suffer punishing shock waves when all obstacles disappear to the full establishment of EC banks wherever they choose to go, in whatever branch of activity attracts them, and when EC capital must be able to flow into whichever sector it selects, the authorities have opted to liberalise faster than slower.

So far, the innovations have made Spain an increasingly-attractive market for domestic and foreign money, handled with increasing sophisication by growing numbers of institutions. The traffic though is getting heavy, so that the workload to prevent the system overheating is increasing.

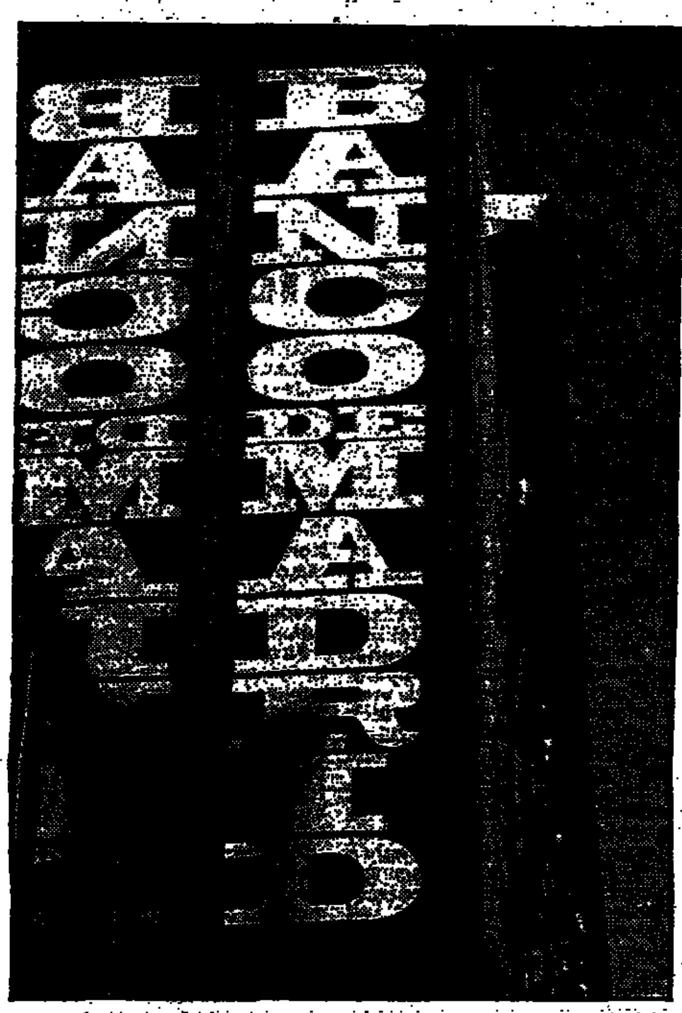
Diana Smith

Macroeconomic Framework

(Rates of Real Growth)

	1985	1986	1987 (1)	1987 (2)
Total Consumption	2.3	3.7	2.9	3.4
Private	1.8	3.6	3.0	3.5
Public	4.4	4.0	2.5	3.0
Gross Capital Formation	3.9	12.0	7.8	9.0
Domestic Demand	2.7	5.2	4.0	4.5
Exports	2.9	1.1	3.7	2.5
Imports	5.4	16.0	8.6	11.0
GDP at market prices	2.2	3.0	3.0	2.5

(1) *Official forecasts.*
(2) BHA forecasts.
Source: Contabilidad Nacional de España (INE). Banco de España.



An image of Spain's increasingly modern banking system. The banks have a useful edge in leasing

Leasing

Profitable and expanding

EVERYBODY WHO is anybody in banking is doing it: getting into leasing. It is profitable. It is expanding, as Spanish manufacturers rush to re-equip with an eye on cost-profit ratios and the tax write-offs allowed by law on leased equipment.

A leasing company owned by a Spanish bank, savings bank, or one of the foreign-controlled retail banks now diversifying into profitable services has an edge on independent competitors: it keeps overheads down, operating through the bank's network of branches; it has a financial cushion and the bank or savings bank's name and high profile reassure potential clients who are newcomers to the world of leasing.

Though it has been in Spain for over 20 years, leasing first expanded in 1977 when the authorities introduced tax write offs for clients. Business expanded again when tax facilities were extended to property leasing in 1980.

Property is now the fastest-growing leasing sector as demand for office, factory and consulting room space spirals.

Equally, leasing by companies of fleets of vehicles for salesmen or deliveries, or of car hire vehicles aimed at the tourist trade, is booming.

There are now 50 leasing companies registered at the Ministry for the Economy and Treasury: most are related to major banks or savings banks. The minimum capital requirement is only Pta100m ($600,000) which many operators consider too low.

Turnover soared to Pta400bn, 50 per cent higher than 1985 (which in turn exceeded 1984 by 60 per cent). Investment through leasing was just under 1 per cent of gross domestic product last year—below European Community averages.

But Spain is catching up. Between 1975 and 1985 investment through leased equipment, property or vehicles grew from 0.8 per cent to 5.6 per cent of gross capital formation. In 1986 leasing was 30 per cent in capital equipment, 30 per cent in transport equipment, 20 per cent in property, 18 per cent in data processing and 2 per cent in miscellaneous goods.

The Government, through the network of regional industrial development companies, often resorts to equipment leasing.

With margins of 5 per cent in 1985 and 4 per cent now, low overheads, lower risk than bank loans and post-EC accession import liberalisation which drove manufacturers to modernise and build up strength against EC competition resorting to leasing was often one of the less expensive ways of keeping abreast of technological change.

Annual return on capital at a very high rate is not unknown in the business. Small wonder that Spanish leasing companies would like to see their country coming closer to the US where 25 per cent of new investment is done through leasing.

The list of leasing companies is widening its geographical base rapidly: the groups are there—Hispano Americano, Bilbao, Santander, Urgijo, Vizcaya, March, Pastor, La Caixa, Banca Catalana—Iberleasing which brings together several smaller bank groups; Lico, representing associated savings banks; the small-medium business banks (Banco de la Pequena y Media Empresa; vehicle-rrelated companies like Liseat (Seat, Audi and Volkswagen) and a growing number of foreign banks, including Barclays, Chase Manhattan, First Interstate, Continental Illinois, Manufacturers Hanover Trust and Credit Lyonnais/Slibail, will soon be followed by others.

Diana Smith

Stock market

Breaking records as economy expands

FROM THE outside the Madrid Stock Exchange is reminiscent of a large, exclusive club in London or New York. Its neo-classic pillars tower over a neighbourhood that includes the Ritz Hotel and the Prado Museum, the artistic reminder that a long stretch of Spanish history is about power, patronage, closely-guarded individual wealth and self-assurance.

Self-assurance is alive and well and living at the stock exchange, the fastest-growing market in the West last year. Sr Enrique de Benito, chairman of the stock exchange and primus inter pares of Spanish brokers, awarded the market "magna cum laude" for its 1986 performance in a glossy brochure that does not err on the side of modesty.

Indeed, Madrid broke all records last year. Turnover exceeded 1985 by 250 per cent and totalled Pts 5 trillion ($30bn). Total capitalisation of quoted shares doubled, capital appreciation of shares was five times larger than that of bonds, commercial paper and public debt instruments, and almost 6m shares a day were traded.

The share index rose 141 per cent in dollar terms and 108 per cent in pesetas.

Soaring interest rates in the second quarter of the year have diverted some funds from the stock market into other financial instruments, but the atmosphere around the Grecian pillars and marble floors is still buoyant.

A growing economy and vastly-improved company performances in the past year or so are boosters for the Spanish "bolsas"—the stock markets that operate in Madrid (the main market), Barcelona, Bilbao and Valencia. Restored business self-confidence, EC membership which provides a sort of seal of approval for a market that was once a sluggish, speculation-ridden backwater, and the continued search for investment opportunities by international institutions have given Spain's market what they sorely needed: injections of energy and capital.

Now all they need is supply to match blossoming demand, barely 300 companies are quoted in Madrid, where once 500 companies were quoted. Twelve new issues too place in 1986, some 15 are planned for 1987 but these are drops in an ocean of Spanish businesses whose owners still need time to percieve that their hermetic, family-run enterprises could benefit, not lose out, from going public.

Spain's tax system, which offers no special incentives for companies opting for a stock exchange listing, does not inspire many entrepreneurs at this time.

Only 60 of Spain's top 500 industries are listed on a market whose volume of trading rose to 5.4 per cent of gross domestic product in 1986 against only 2.2 per cent in 1973.

Foreign purchases of shares grew by 596 per cent in 1986 to Pta 349bn and foreign dealings represented 17.8 per cent of total volume.

The boom has led Spain's authorities and market operators to look at possibilities of a big, medium or little bang, with the changes this would bring.

But opinions diverge on what reforms will be the best for Spain. Should the banks, whose power is under small but muscular attack from bright young independent operators, be allowed to intervene directly on the market? How can insider trading, a fact of daily life, be curbed? Should commissions be made up of independents who cannot acquire shares? How soon can the options and futures markets be introduced? What minimum capital base should there be for operators?

Such questions are exercising the study group at the moment and the findings and the Government's decisions will determine the next stage of development of a market that has power, wealth, a touch of patronage and a large measure of self-assurance. But not the artistic glories of the Prado only a few dozen metres away.

In early July Mr Carlos Solchaga, Minister for the Economy, announced th basic proposals for Stck and Foreign Exchange Market reforms. These will be discussed in Cabine at the end of July and again in early September, after the summer break, before final plans are announced.

Basically, the proposals call for a nationwide Stock Exchange, not the four separate markets that now exist, where brokers and dealers would be the legal operators and commissions would be variable instead of fixed, as they now are.

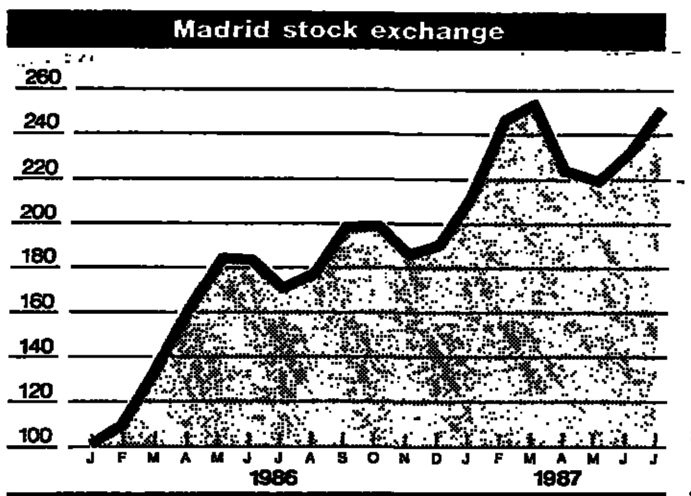
A Stock Market Institute is proposed as the regulatory body, with powers to act against insider trading that, currently, is one of the less constructive aspects of Spanish stock markets.

Diana Smith

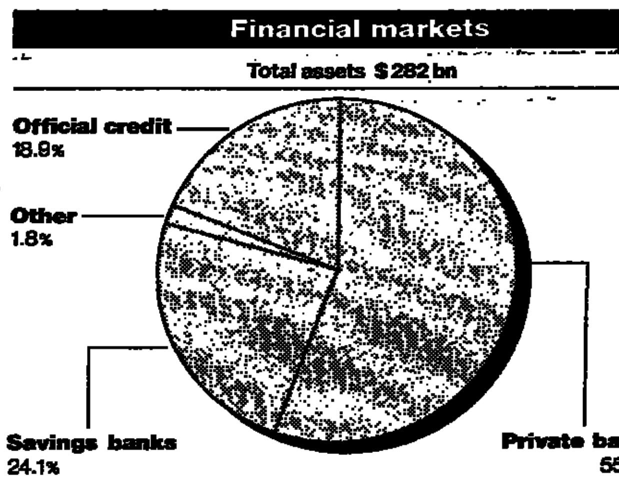
Madrid Stock Exchange 1986

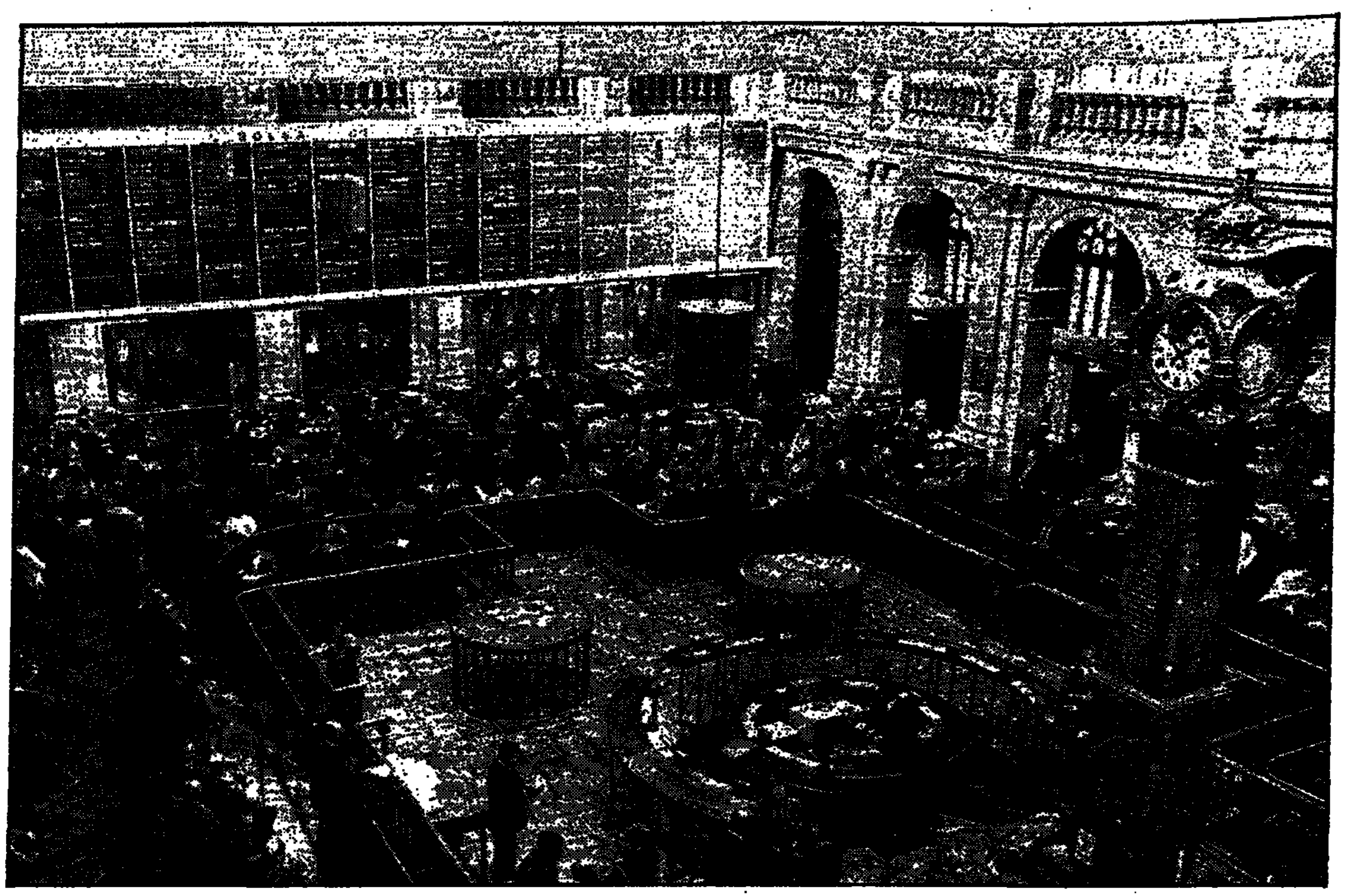
No. of listed companies	312
No. of brokers	87
MARKET CAPITALISATION (Pta m)	
Shares	6,477,320.5
Debentures	1,616,942.3
Bank bonds	960.029.5
Public securities	2,895,173.8
Total	11,949,465.5
TURNOVER (Pta m)	
Shares	1,757,184.1
Debentures	61,253.9
Bank bonds	64,764.1
Public securities	343,272.0
Short term paper	2,670,178.4
Total	4,896,652.7
CHANGE IN THE INDEX IN 1986	
Excluding dividends	+ 108.31%
Including dividends	+ 116.64%
ISSUES (Pta m)	
Shares	209.829.0
Fixed income	3,315.344.1
Public sector	2.127,993.4
Private sector	1,187,350.7
Total	3,525,173.3

Madrid stock exchange



Financial markets





Floor of the Madrid stock exchange. New institutions are joining the old

New institutions

Young generation making a name

THE BRAIN in Spain drains mainly into new enterprises. Bright executives of both sexes are starting to abandon classic banking and are going into competitive business on their own. Others have recently and profitably revamped or set up streamlined market-oriented business or merchant banks belonging to old-established, powerful banks.

Equipped with high technology and as bustling with gung-ho upwardly-mobile youngsters as anything you could find in New York or post-Big Bang London, the new enterprises are pushing Spain closer to the centre of Western financial market action.

Spain's booming money, capital and stock markets have attracted a new generation bent on making not only money but a name in a scene they hope will be deregulated soon. When Spain's big, middling or little bang comes, the young independents hope banks will stay banks and keep out of direct market intervention, allowing lone rangers a free ride.

The rules of Spain's deregulation are not yet defined: time will tell if banks that want an active role get their way.

Meanwhile, the newcomers are wasting no time jostling into position, grabbing lucrative fee-paying business wherever they can, devising new products for clients inside and outside Spain, forcing changes in entrenched attitudes—like the reluctance of many Spanish entrepreneurs to go public with either their capital or their information, to merge or share management decisions with new partners—and generally enjoying everything they do.

Armed with computers and an insistence on the need for thorough, independent research to satisfy increasingly-sophisticated requirements of their clientele, the young economists, agents, brokers, portfolio managers, consultants and wheeler-dealers produce a type of analysis, presentation and proposal that would have been hard to find in Spain a few years ago.

Having taken the calculated risk of creating their own venture, they seek to cushion clients' risks when investing on the markets, buying into a local company or injecting venture capital into new projects, by rooting out every detail they can elicit from a system where transparency of company information is not a deep-rooted tradition.

Foreign operations are a growing attraction for the new breed, now that Spanish currency and overseas investment regulations have liberalised, and that membership of the EC is liberalising the flow of capital into Spain.

The past two years have bred a vigorous crop of new operators on the Spanish market. They fall into groups in which some operations are similar, styles are subtly different rather than forcibly-contrasting and key factors are omnipresent: ambition, high fluency in market-speak, influential connections and willingness to innovate and take risks.

The first group consists of new or newish subsidiaries of big banks—Banco Santander de Negocio, Banco Hispano-Industrial for instance: merchant or business banks, run by well-connected men at equal ease at home and abroad, aggressively competitive with wholesale foreign banks who pioneered the Spanish terrain

Banco Santander de Negocio whose managing director, Juan Rodrigues Inciarte, learned many of the tricks of his trade at the Midland Bank, is involved in setting up the new self-regulating association of money market operators—an experiment that, if successful could serve as example for self-regulation in other areas.

The Santander merchant bank, like others in the field, is a fiercely-competitive funnel for foreign investment in Spain, pitting its resources in this area against foreign banks which play similar roles, and against members of the second and third group of new operators.

The second group, licensed brokers companies, began to appear in 1983. Led by Iberagentes, which is located only a hop, skip and jump from the Madrid stock market, these companies are delegates of the Treasury for Treasury paper operations on the money market.

Iberagentes is also licensed to operate investment trusts and portfolio management and act as official depositary of stock and shares for unit trusts (mutual funds).

They cannot, however, acquire shares for themselves

Like all new institutions, licensed brokerage companies expend lavish energy on high-powered presentations offering their knowledge and services to potential clients.

Meanwhile, the softest of sells rather than all-out presentation is the house style of Investcorp, one of the latest arrivals. This small, well-connected group of experts are mostly graduates of subsidiaries of big banks, like the redoubtable Ms Monica Morales, a Scotswoman who came to Spain a couple of decades ago and stayed to become a highly-regarded local financial market figure.

Strongly equity-oriented and so far keeping out of public debt paper, Investcorp, after only a few months in operation, bought itself a small bank, Banco Trelles, from one of the giants (Banesto), which it plans to turn into a merchant bank—a back-up for Investcorp's fund management.

Another recent arrival, Mercapital, is branching out into several directions—mergers and acquisitions, operation of funds on local and overseas stock markets and on the Spanish money market, consultancy and management services, financial restructuring (a major area in the period of adaptation to EC membership), and portfolio management.

Very small in numbers of staff—only 23 people—it operates out of up to the minute offices in Madrid and is among the most independent-minded of the new independents.

Diana Smith

Foreign banks sore at sudden suspension

THE MADRID stock exchange committee caught everybody off guard by suspending trading in one of the main electrical stocks, Fuerzas Electricas de Cataluna (Fecsa). The ensuing affair came closer than anything over the previous four years to undoing the goodwill that Socialist-governed Spain had built up among foreign lenders.

Foreign banks, especially those without big operations in Spain, and above all the Japanese, felt they had been led into a trap by the Spanish government. Electrical utilities, although mostly private-sector like Fecsa, were after all a government-supervised sector, which had been subjected to government cutbacks on nuclear power, which had gone through a government-approved reorganisation of production capacities and market shares, and which was at the mercy of government-fixed electricity rates.

Rumours about Fecsa had already been gathering. The Barcelona-based company, with an eventful history behind it and a strong commitment to nuclear energy, had accumulated a massive debt — in total about $5bn — on top of a relatively weak financial structure.

The share suspension faced the company with the need to confront its creditors. The "normal" process of rescheduling debts could not be kept up, as it could no longer obtain new funds. A Pta 20bn credit it was to have signed on the Friday was called off.

The case was made forcefully that Fecsa was an isolated case among Spanish utilities. But the rest of the sector was not to extricate itself. For one thing, Fecsa's interest was not to give the impression that its management alone was at fault.

For another, the main weapon in the hands of the banking community was its ability to cut off funds to other power companies, threatening a domino effect in the utility sector and a downgrading of Spain's credit ratings in general.

The affair has been five-sided, involving Fecsa, the Spanish banks (some of which had been selling off their Fecsa debt at a discount to foreign banks), the foreign banks, the rest of the sector, and the government, on which all the others have been counting for support in the form of a new "stable legal framework" for the electricity industry and a new formula for calculating rate increases.

A new chairman, Mr Luis Magana, an energy expert from Banco Central, was put in. In March the company suspended principal repayments on its bank credits. It drew up a viability plan aimed at cutting its forecast debt in 1992 from Pta714bn to Pta498bn. Not only would most repayments be put off to start only in mid-1994, but interest would be set at below-market rates up to the end of 1990.

Fecsa's problems can be put down mainly to its investment programme, higher than any of the other utilities in proportion to its size

While US bankers were complaining that the plan was "just on the wrong track," Fecsa sent out telexes announcing that it would enforce the new rate unilaterally while negotiations were going on. But when the banks got together to negotiate, it withdrew the measure.

Spain's last big corporate debt crisis, which blew up at the Explosives Rio Tinto chemical group in 1982, took 18 months of tough discussions to resolve. The Fecsa case could not be allowed to drag out for so long, if only because of its implications for other companies, totally dependent on their access to financial markets.

The initial stages, however, took longer than Mr Magana expected. A negotiating committee of banks was not ready for talks with the company until June 23.

Fecsa's problems can be put down mainly to its investment programme, higher than any of the other utilities in proportion to its size. Fecsa is Spain's fifth largest power company, together with its subsidiary segre holding down just over half the market in Catalonia, the main industrial region in the country.

Two nuclear reactors at Asco in the south of the region, in which Fesca has shares of 60 per cent and 40 per cent, went into commercial operation in 1983 and 1986.

The financial burden connected with these start-ups was made worse by losses at Fecsa's mining subsidiaries—some Pta 60bn over the last 10 years.

In the recent asset swap between utilities Fecsa alleviated the burden by receiving Pta 192bn, although this was rather less than it had calculated. But its debt, Pta 616bn at the end of last year including bonds and Pta 189bn in foreign currency credits, remained proportionately high — almost 15 per cent of the sector's total debt, compared with its market share of about 10 per cent. Servicing the dbt cost it Pta 74bn last year, 54 per cent of its revenue.

After declaring a Pta 5.7bn pre-tax profit for 1985 — and rceiving an effective disclaimer from auditors Arthur Anderson — it adjusted its accounting practices and presented its shareholders with 1986 figures showing a loss of Pta 12.7bn and "deferred costs" (a concept for which Spain still has to set rules) of Pta 22.7bn.

Mr Magana has warned that the recovery plans will have little impact on this year's results and that the company cannot count on this year's results and that the company cannot count on the savings it made last year from the fall in the dollar.

With the debt issue still under debate, Fecsa has obtained an ijection of fresh capital, with Pta 16bn pumped in, mainly form a utilities' reserve fund, in May and a further capital increase approved by the annual meeting in June. A return to the stock market is hoped for in the autumn.

David White

Public spending grew by 16 per cent last year

Reins too weak for 'runaway horse'

NO ECONOMIC issue provokes as much impassioned debate as the Government's budget deficit.

Mr Rafael Termes, chairman of the Spanish Banking Association, compares public spending to a "runaway horse with a rider who does not know how to manage the reins."

Mr Jose Borell, Secretary of State for Finance, says the deficit is not a serious problem and that public spending cannot be substantially reduced if Spain is to maintain a peaceful climate and meet the challenges of EC membership.

On the face of it the Government's performance is not very good. The deficit was reduced to 5.7 per cent of GDP from 6.7 per cent in 1985, according to the Bank of Spain, but this still meant overshooting the target of 4.5 per cent, and this was in a year when Spain saved $3bn on its oil bill (prices for the consumer were not reduced very much) and VAT was introduced which greatly boosted tax revenue.

"It makes me mad," said Mr Jorge Hay, chief economist at Banco Hispano Americano, the fourth biggest bank. "The Government had a golden opportunity to reduce the deficit just by sticking to its plans."

Progress is being made in cutting costs at some state-run companies, but new problems are emerging. One of the new factors behind the 16 per cent growth in public spending last year was the increase in expenditure by the administrations of autonomous communities and the proliferating organisations which depend on them.

According to provisional figures the deficit for the autonomous communities, which sometimes do little more than duplicate the functions of the central government, was some Pta 100bn. This is apparently higher than that for the social security system.

The deficit is also burdened down by the high cost of servicing accumulated deficits from the past. Officials are fond of saying that but for this factor Spain would not have a deficit problem. Indeed if interest payments are excluded the 1986 deficit declined to 1.6 per cent of GDP, from 3.2 per cent, but this is an illogical argument.

Mr Mariono Rubio, Governor of the Bank of Spain, singled out the structure of the budget as one of the main problems when he presented his annual review of the economy in June. "The result is that despite higher taxes and a persistent deficit, public productive investment continues to be very modest and people have to put up with an insufficient amount of funds for important services."

The Spanish education and health services leave a lot to be desired, and yet total government outlays have risen 15 points in the past 10 months to almost 40 per cent of GDP, against an EC average of 52 per cent.

In the same period, average government outlays in the EC rose 4 points. Mr Termes seizes on this figure to try to prove the "poor quality" of government spending overlooking, for political reasons, the fact that under Franco state spending was neglible and that the Socialists have a lot of ground to cover.

The deficit problem also hinders Spain's efforts to liberalise its financial system. The overall investment coefficient figure which obliges private banks to channel a large amount of their deposits at lower than market rates into state-directed investments and into Treasury Bills came down earlier this from 23 per cent to 11 per cent.

Mr Rubio has said repeatedly that the reductions depend on progress made in reducing the deficit.

The Bank of Spain has begun to reform the antiquated deficit financing policies. In June its electronic book entry system came into force, known as anotaciones en cuenta. Transactions in Treasury issues, previously cleared by the stock exchange's own notoriously slow settlements system, are now done through the Central Bank the same day.

The services of stockbrokers who notarised the transactions for a juicy fixed commission have been dispensed with, to the fury of this entrenched group which tried to block the reforms in the Council of State, a body which advises the Government but has no formal powers. The new system does away with physical titles and makes public debt instruments fungible.

By cutting the costs of trading the Bank of Spain hopes to create a much larger secondary market and execute monetary policy more effectively.

The Central Bank has also proposed that the Treasury's overdraft be limited by law. Mr Pedro Martinez Mendez, head of the Treasury, refrained from issuing large amounts of new debt in the first months because he mistakenly expected rates to come down and wanted to minimise the costs of financing the government deficit.

As a result, government borrowing from the Bank of Spain rose pta 371bn in the first four months of 1987 while in the same period last year the Treasury reduced its overdraft by pta 991bn. The monetarisation of the deficit has been one of the main causes of the surge in the money supply and in order to control it interest rates have gone through the ceiling.

The Treasury also compounded the problems by blowing the role of Treasury bills as a monetary control instrument through encouraging their use as a refuge for tax-shy funds.

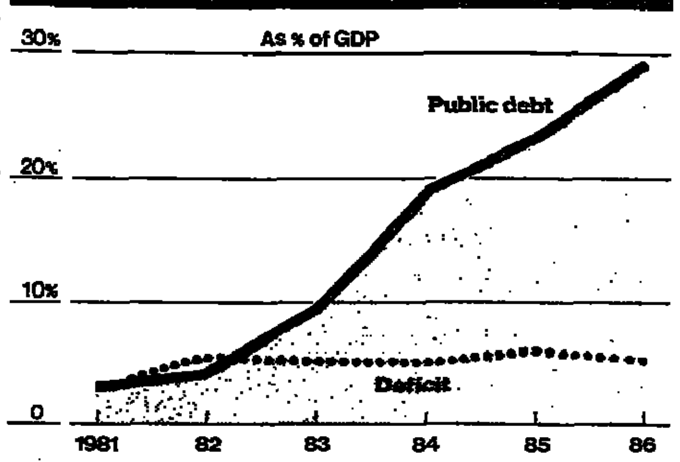
In June a new long-overdue instrument, *letras del tesoro* (Treasury notes) dubbed letrinas (which means either small letters or latrines) was introduced and it does not enjoy tax privileges. "As long as the deficit lasts, the Treasury must have a range of adequate instruments to finance it without jeopardising the monetary policy goals," Mr Rubio observed in a harsh comment on his Treasury colleagues.

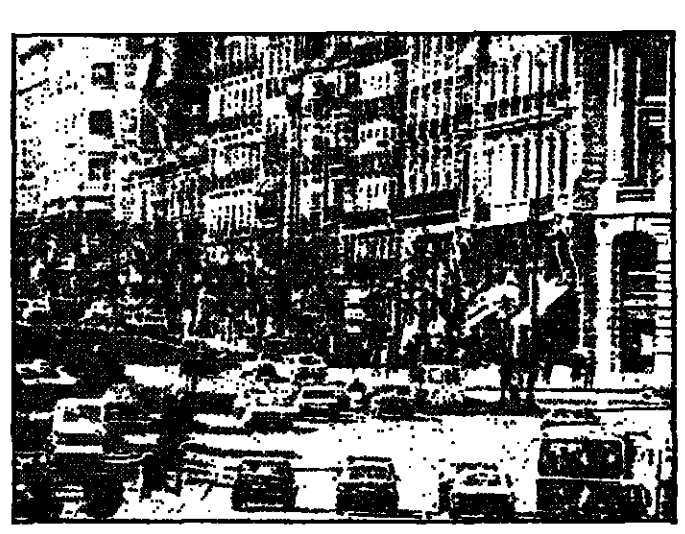
At the same time the Treasury is cracking down harder on tax fraud, which remains something of a national sport in Spain, in an effort to boost its coffers. The average declared salary of self-employed businessmen in 1985 was a mere Pta 646,582, half the average wage of workers on a payroll.

In 50,000 inspections tax inspectors discovered that people were hiding almost half their earnings. And in 500 cases taxpayers imported cars worth more than Pta 4m each and declared in their returns that they only earned Pta 1m.

William Chislett

Public deficit/debt





Madrid street scene. The public deficit has yet to fall into line.

Effective Turnover

(million pta)

	Public Securities	Debentures	Bank bonds	Shares	Treasury bills	Commercial paper*	Total
1984	44,441.9	15,981.1	71,403.3	285,986.0	445,280.0	28,461.0	891,153.3
1985	114,879.0	20,670.0	71,046.0	492,503.0	983,110.0	15,380.0	1,697,589.0
1986	343,272.0	61,253.9	64,764.1	1,757,184.0	2,623,370.0	46,808.0	4,896,652.7

*Including bank bills and promissory notes

EC funding

An opportunity to integrate development

THE LITTLE two-carriage train from Madrid to Lisbon clatters purposefully for hours, through the sun-dried Spanish province of Estremadura. It rattles past olive groves, fields of newly-cultivated with fruit or vegetables, scattered farmhouses and small earth-coloured towns, new reservoirs and, here and there, new apartment and factory buildings.

Estremadura, which some visionaries would like to turn into the California of Europe—blend of El Silicon Valley and farm produce—is one of the areas singled out for integrated development in the new era of European Community membership when Spain has access to regional, social, and agricultural structural funds.

Studies are under way for integrated programmes aimed at reducing the disparities between living standards, job skills and production of goods or services.

The areas singled out are Andalucia, east of Jaen and north of Granada, the Canary Islands, La Mancha, Salamanca and Zomora, Estremadura (Caceres and Badajoz) and central Asturias. Could Spain drum up enthusiasm in Portugal, there would be a chance for cross-border integrated programmes covering Portugal's Estremadura and Minho areas that could benefit from joint industrial, agri-business or services programmes.

But to Portugal sharing funds with larger, richer, more competitive and productive Spain smacks of self-effacement to an undesirable degree. For now Spain concentrates on Spain, Portugal on Portugal and the EC dispenses appropriate shares of structural funds.

Agricultural support and orientation funds (which include fishing) had to be rejigged to take Spain's different farmland development and incomes into account. They therefore started to flow more slowly than others of EC and brought in only Ecu 86.1m in 1986. There was no shortage of projects, however.

Andalucia submitted more farm investment projects than any other region: 70 in all, followed by Catalonia, Valencia, Galicia and Castille-Leon.

Fish does not spring to mind in inland Estemadura: but trout farms there sought EC funds. Dairy, meat and poultry projects, fruit and vegfetables, grain, edible oils and wines assiduously bid for Community support.

In the regional development fund (Feder), the flow was far heavier—Ecu 640m by the end of 1986, basically channelled into infrastructure projects submitted by the central administration—airports, roads, railways, hydraulic projects, pipelines and utilities. In future the 17 autonomous regions will be able to submit their projects to Brussels via Madrid, for development in their areas.

In the first round of disbursements, Andalucia benefited the most from airport, rail, highway and pipeline projects, while Castille-Leon absorbed substantial funds for roads and pipelines Estremadura for hydraulic projects and Asturias for pipelines.

With unemployment close to 20 per cent of the active population, including heavy first-job youth or female unemployment and the chronic problem of low or semi-skilled workers constantly losing out as Spanish industry alters, modernises and demands different sets of skills, Spain inevitably sought all it could tap from the European Social Fund (FSE), which supports job training and recycling programmes, technical or special schools.

In 1986 Spain drew Ecu 351m from the FSE. In 1987 it will take more—Ecu 453m.

The fund is no panacea for endemic unemployment, but can help to provide new or even basic skills and occupation for Spaniards who would otherwise be condemned to chronic idleness and the despondency of long-lasting unemployment.

The autonomous communities have plans for training schools in small or medium-sized towns in a concerted effort to get local involvement in the fight against unemployment.

Job support schemes have been submitted. Hard-hit areas — Galicia, Andalucia, Catalonia, Valencia, Castille-Leon, Estremadura, the Basque country and Navarre, are getting new schemes under way.

There is a human technology gap in parts of Spain that must be closed rapidly in order to compete with full efficiency against EC partners from the industrialised North.

The number of FSE projects submitted or in the pipeline indicates that there is widespread desire to treat the problem at the root.

Outside basic structural funds, there are two areas especially where Spain, an ambitious, energetic new member of the EC club, wants benefits: technological research and environmental protection. The drive began before EC accession to make up fast for a sluggish technological start in the 1950s and 1960s, in particular to push small and medium companies into automation, quality control and modernisation.

The chance to share in major EC programmes — Esprit, Valoren and Star is of maximum interest.

In Brussels, the Spanish contingent has become famous in the year and a half of membership for concerted pursuit of Spain's status, bargaining power and advantage. The Spanish presence constantly reminds partners from the North that Spain is in a hurry to catch up on the ground lost during the era of isolation, protectionism and attempts to blot out the individuality of the regions that are now autonomous communities.

The Spaniards perceive EC membership as far more than a grab for development or vocational funds — which are useful, but in some ways ancillary to the central urge: to be a major, listened-to Eurorean partner influential in all the spheres — social, commercial, political and budgetary.

Diana Smith

High-rise hotels in Benidorm. Structural funds from Brussels will enable Spain to reduce the disparities between living standards in different parts of the country

Young customers

Rock 'n roll bank a success

COFFEE MACHINES, videos, a boutique and background pop music are not what you expect to find in a bank. Yet this is what Banco Hispano Americano, Spain's fourth biggest bank, has in its office in the southern city of Granada and the operation appears to be a roaring success.

Hispano has founded what is claimed to be the world's first young people's bank. Other banks offer financial products for the young, but Hispano has developed a bank which is exclusively dedicated to their needs and tastes.

When the bank opened its branch in May, known as Hispano 20, people pressed their faces against the plate glass front and stared in disbelief. Two of the open-shirted staff had to stand in the street to explain that inside was a "bank without counters."

In its first month Hispano 20 opened just over 1,000 accounts, which was the target for the year. Several foreign banks are beginning to eye Hispano's venture with a view to copying it.

Hispano decided a year ago that it had to concentrate more on the young. The bank's attention was caught by a revealing British statistic which said that 83 per cent of people stayed with the first bank they used.

Traditionally Spanish banks, whose customers have a high age profile, have ignored the young, although the under-25s account for almost 40 per cent of the country's 39m population. EEC membership is making competition more fierce and the market for the young is up for grabs.

Hispano's own chairman, Claudio Boada, is 67, although he has the energy of someone 20 years younger. The idea is part of Boada's strategy of returning Hispano—which got into trouble in 1984 after problems stemming from its acquisition of Banco Urquijo Union—to the grass roots of retail banking and give the bank a new identity.

Hispano 20, which also has an office in Zaragoza and plans a dozen more by 1988 in provincial capitals, is open in the afternoon unlike other banks in Spain. One afternoon a young schoolgirl came into the open-plan Granada office and broke open her piggy bank on the manager's desk so that she could open a savings account with her Pta 50.

The bank offers loans and deposit accounts at better terms than in "ordinary" branches. Whereas in other banks the manager would not spare the time of day to discuss a Pta 10,000 loans such ammounts are constantly granted by Hispano 20. One of the bank's slogans is "Sin dinero no hay rock and roll" (Without money there is no rock and roll).

Interest of 6 per cent a year is paid on accounts with a minimum balance of Pta 25,000 compared with Pta 100,000 in Hispano's other branches. No interest is charged for 10 days on overdrafts of less than Pta 15,000. Profits are not the overriding concern at this stage, but rather winning over the present generation.

William Chislett